
Tennessee Housing Development Agency

Servicing Guide

December 2003

**TENNESSEE HOUSING DEVELOPMENT AGENCY
SERVICING GUIDE**

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CHAPTER I – GENERAL INFORMATION

101. **The Guide**

Abbreviations and terms used in the Guide:

FHA - Federal Housing Administration

FEMA - Federal Emergency Management Association.

FHLMC - “Freddie Mac,” Federal Home Loan Mortgage Corporation.

FNMA - “Fannie Mae,” Federal National Mortgage Association.

GSE - Government Sponsored Enterprise (FHLMC, FNMA, GNMA).

Guide - this THDA Servicing Guide.

IRS - the Internal Revenue Service.

OA - “Originating Agent,” a THDA authorized lender.

PMI - Private Mortgage Insurance.

PUD - Planned Unit Development.

RHS - United States Department of Agriculture, Rural Housing Services,
a.k.a. “Farmers Home.”

THDA - Tennessee Housing Development Agency.

VA - Veterans Administration.

This Guide, together with all subsequent revisions, modifications, updates and instructional memos provided by THDA, serves as an addendum to the Servicing Agreement. Generally, it does not quote FHA, VA, PMI or RHS regulations, but concentrates on information and instructions concerning unique requirements related to servicing loans that are owned by THDA. Where the content of this Guide might conflict with FHA, VA or RHS requirements, the requirements of FHA, VA or RHS shall prevail except in the case of IRS and THDA program requirements, which shall prevail regardless of the appearance of conflict. (Example: occupancy requirements, the non-applicability of Garn-St. Germain and similar topics.)

THDA may revise, modify or update this Guide from time to time and will notify Servicers that specific changes have been made. The revised pages will be posted on THDA’s web site at www.tennessee.gov/thda. Servicers may access that site for the current Guide. Servicers should provide THDA with the email addresses of each staff member who should be notified of Guide revisions.

102. **What is THDA?**

THDA was established by the Tennessee legislature through enactment of Tennessee Code Annotated Sections 13-23-101, et seq. Under the direction of a 19-member Board of Directors, the mission of THDA is to be the lead state agency promoting sound and affordable housing for people who need help.

THDA is an agency of the State of Tennessee, rather than a department of the Executive Branch. State tax revenues do not fund THDA. The agency is supported by earnings from its loan portfolio.

THDA is not a direct lender to borrowers, but works with approved mortgage lenders (“Originating Agents” or “OAs”) from across Tennessee to originate its loans. THDA underwrites loan applications submitted by OAs, and then commits to purchase pre-approved loans after they are closed and documented, or in some cases, table funds loans.

103. IRS and THDA Requirements

New THDA loans must meet specific THDA and IRS program requirements, and must continue to comply with certain program requirements for the life of the loan. All loans funded or purchased by THDA are held in THDA's portfolio. THDA loans must be serviced by approved THDA Servicers.

THDA either pre-funds ("table funds") loans or purchases closed, committed loans with proceeds from the sale of mortgage revenue bonds. The earnings from such bonds are generally free from federal taxation; therefore, THDA loans must meet certain federal tax code requirements. Federal tax code and THDA policies specify that THDA loans must be made to first-time homebuyers (except in certain designated targeted areas within the state) with limited household incomes who are acquiring modest homes and who will continuously occupy the home as their primary residence. Failure to follow THDA program requirements for the life of each loan may jeopardize THDA's ability to continue to offer below-market interest rate loan programs. In addition, violation of IRS regulations could cause the interest earnings on outstanding THDA mortgage revenue bonds to be declared taxable.

104. THDA Mortgage Administration Division

The Mortgage Administration Division is one of nine specialized divisions within THDA, and has day-to-day operational control over the servicing of THDA mortgage loans. The Mortgage Administration mailing and courier address is:

Mortgage Administration Division
Tennessee Housing Development Agency
404 James Robertson Parkway, Suite 1114
Nashville, TN 37243-0900

When sending items by mail or overnight courier, servicers are strongly encouraged to include "Mortgage Administration Division" or the name of a Mortgage Administration staff member within the address to preclude misrouted delivery. Other THDA divisions are not familiar with documents and items that a servicer might deliver to the Mortgage Administration Division, and as a result, a misrouted delivery may become permanently lost. Mail and courier deliveries shall not be considered received until they arrive in the Mortgage Administration Division.

105. Hours of Operation and Holiday Schedule

The Mortgage Administration Division hours of operation are 8:00 a.m. until 4:30 p.m. Central Time, Monday through Friday. Certain staff members are on duty prior to 8:00 a.m. and may be contacted prior to the regular hours of operation.

Official State holidays are as follows:

New Year's Day	Labor Day
Martin Luther King Day	Columbus Day*
Presidents' Day	Veteran's Day
Good Friday	Christmas Day**
Memorial Day	
Independence Day	

*This holiday may be exchanged for a holiday on the Friday after Thanksgiving.

**Additional days before or after Christmas Day may be declared holidays.

106. Contact Persons for Borrowers

It is the Servicer's responsibility to handle questions, requests and complaints from borrowers and to contact THDA for advice and assistance as needed. This policy permits borrowers to gain confidence and trust in the Servicer and is intended to eliminate confusion. The Servicer's officers and staff members are encouraged to freely contact the Single Family Programs Division at any time. Servicers are not authorized to instruct borrowers to contact THDA directly.

107. Staff Directory

All Single Family Programs telephones are equipped with voice mail, which may be accessed 24 hours a day, seven days a week. After the recorded greeting begins, a caller may press “#” on a touchtone phone to immediately begin leaving their message. A caller who reaches a voice mailbox during business hours may press “0” on a touchtone telephone after the recorded greeting begins to be forwarded to the THDA receptionist.

All Single Family Programs staff members have e-mail, as indicated below. Servicers are encouraged to make use of this communication tool.

All telephone numbers are **Area Code 615**

Fax (24 hours a day, 7 days a week)..... 741-9621

<u>Staff</u>	<u>Telephone</u>	<u>Email Address</u>
Laura Sinclair, Director of Single Family Programs	741-6428	laura.sinclair@state.tn.us
Sharon Pommer, Single Family Servicing Support Manager	741-4931	sharon.pommer@state.tn.us
John Hubbard, Chief of Operations	741-7347	john.hubbard@state.tn.us
Caroline Rhodes, Mortgage Servicing Specialist (Electronic Reporting, Multifamily servicing)	741-0574	caroline.rhodes@state.tn.us
Deborah Couch, Mortgage Servicing Specialist (Full & partial releases, assumptions, name changes, rental requests, hazard insurance checks, general customer calls, PMI cancellation, recapture questions)	741-3016	debbie.couch@state.tn.us
Steven Lamb, Chief of Defaults/Investor Relations	741-5711	steven.lamb@state.tn.us
Ginny Boles, Mortgage Servicing Specialist (Bankruptcy, foreclosure and REO status changes, insurance/guaranty claims, default refund checks, expense reimbursement inquiries, default reports)	741-5855	ginny.boles@state.tn.us
Cheryl Adams, Mortgage Servicing Specialist	741-5712	cheryl.adams@state.tn.us

CHAPTER II – SERVICER REQUIREMENTS

201. Maintaining Approval

In order to maintain approval, a THDA Servicer must:

1. Service THDA loans from an office located within the state of Tennessee or a state contiguous to Tennessee;
2. Comply with the licensing requirements of the state in which the servicing office is located;
3. Have an acceptable net worth, as determined by THDA;
4. Have an adequate number of staff with adequate experience in the servicing of mortgage loans;
5. Possess adequate computer hardware and software to efficiently service THDA loans;
6. As a minimum, carry insurance (errors and omission, liability, employee theft, etc) of the types and amounts of coverage as required by FNMA or FHLMC;
7. Comply with all insurer or guarantor requirements for each type of loan serviced (FHA, VA, RHS and/or PMI), and continually maintain applicable insurer or guarantor servicing approvals;
8. Provide annual THDA Servicer renewal information within 60 days of the Servicer's fiscal year-end (Section 1004.A);
9. Comply with applicable State and Federal loan servicing laws and regulations;
10. Comply with the Servicing Agreement and this Guide; and
11. Be capable of reporting to THDA in a prescribed electronic format and remitting collected funds by wire on a daily basis. (Chapter III)

THDA reserves the right to limit the number of loans or percentage of THDA's portfolio a Servicer may service for THDA, or redirect an OA to deliver new servicing files to a different THDA Servicer.

202. Fees a Servicer May Earn

- A. THDA Servicers earn a servicing fee for each scheduled principal and interest payment posted and forwarded to THDA. The servicing fee is calculated at a rate of 1/12 of 3/8 of one percent, times the principal balance of the loan prior to the application of the payment. Payments are remitted to THDA net the servicing fee.
- B. Servicers may retain late charge fees from borrowers that conform to the amount and conditions stated in each applicable note. Late fees may not be assessed simply as a revenue-producing source, but are considered as compensation to the Servicer for the additional effort required to work with slow paying borrowers. Servicers may not collect late charges by charging the borrower's escrow account, deducting from a regular monthly payment or adding to the outstanding principal balance of the loan.

Servicers decide whether or not to charge, waive or delete late payment fees; however, in all cases, the Servicer should treat THDA borrowers equally with non-THDA borrowers. The Servicer should waive a late fee for a THDA borrower if it would waive the fee under similar circumstances for a loan held in its own portfolio or serviced for others.

In the case of a THDA loan that is placed into foreclosure, the Servicer must include unpaid late fees and advances in the total foreclosure bid in order to recover uncollected fees. The Servicer may not retain a portion of claim funds or REO proceeds as compensation for uncollected late fees or advances.

- C. Servicers may earn and retain fees paid by HUD for successful loss mitigation efforts.
- D. Servicers may earn and retain fees for processing the assumption of THDA loans (Chapter IX). Servicers may charge the maximum fees permitted by FHA, VA and RHS. Fees charged for processing the assumption of conventional loans should be comparable to other loan types.
- E. Servicers may sell elective products to THDA borrowers, such as mortgage life insurance and disability insurance, and collect premiums in conjunction with the borrower's monthly payment; however, Servicers should weigh the advantages of the product against the financial capacity of the borrower. The typical THDA borrower is a first-time homeowner with modest financial resources.
- F. Servicers may charge and retain fees for miscellaneous purposes, such as property inspections, as noted in other applicable sections of this Guide.
- G. On a case-by-case basis, fees for special services rendered at the request of THDA may be earned.

203. Outsource Service Providers

It is a common practice for loan servicers to enter into contracts with third-party service providers to perform certain duties, such as tracking property taxes, paying homeowners insurance renewals or handling bankruptcies and/or foreclosures. THDA does not object to THDA Servicers entering into such agreements; however, as stated in the Servicing Agreement, THDA holds Servicers responsible for all servicing functions, including the actions of their outsource companies.

THDA does not approve Servicers' selection of outside service providers; however, THDA reserves the right to require Servicers to discontinue using certain outsource service providers for THDA loans, due to unsatisfactory performance, as determined at THDA's sole discretion. In addition, THDA will not consent to conduct routine business directly with third parties. Servicing functions must be coordinated through the Servicer.

204. Sub-Servicing

THDA does not permit and will not consent to its loans being sub-serviced.

205. Custodial Accounts

Servicers are required to establish a custodial account into which escrow payments must be deposited until disbursed for their intended use, and a custodial account into which borrowers' principal and interest payments must be deposited until remitted to THDA. The Servicer is responsible for charges and fees that may be imposed by the depository for maintaining custodial accounts. Interest that may accrue to custodial accounts shall become the property of the Servicer. If the Servicer is, or is affiliated with, an acceptable depository, it is permissible for custodial accounts to be established and maintained within the Servicer's banking organization.

An acceptable depository is a Federal Reserve Bank, a Federal Home Loan Bank, an FDIC-insured depository or an NCUA-insured depository. FDIC or NCUA-insured depositories must meet the minimum depository eligibility requirements of FNMA.

Custodial accounts must be demand accounts, or savings accounts with no withdrawal restrictions. Custodial accounts must conform to FHA, VA or RHS rules and regulations, as applicable. Servicers must maintain detailed records that identify each borrower's interest in the funds held in custodial accounts.

Servicers must inform THDA of intentions to change depositories or account numbers. THDA reserves the right to direct the transfer of custodial accounts to a different depository upon 10 days written notice to the Servicer, or without notice if, in THDA's sole discretion, the Servicer has violated the terms of the Servicing Agreement or this Guide.

- A. All principal and interest payments received from THDA borrowers must be deposited into a principal and interest custodial account. Only principal and interest payments from THDA borrowers may be deposited into the THDA principal and interest custodial account. (See Section 206). THDA borrowers' principal and interest payments may not be co-mingled with another investor's funds, escrow funds, the Servicer's corporate funds or any other types of monies. The name on the principal and interest custodial account must clearly identify its purpose and the interests of THDA. Example: "Principal and interest account, by [Servicer's corporate name], as Trustee for the Tennessee Housing Development Agency." Servicers must reconcile the principal and interest custodial account monthly. Account records and reconciliations must be made available to THDA auditors upon request.
- B. All escrow payments received from THDA borrowers must be deposited into a custodial account. Only escrow payments from THDA borrowers and hazard insurance claim proceeds may be deposited into the escrow custodial account. (See Section 206) THDA borrowers' escrow payments may not be co-mingled with another investor's funds, principal and interest funds, the Servicer's corporate funds or any other types of monies. The names on the escrow custodial account must clearly identify its purpose and the interests of THDA. Example: "Escrow account, by [Servicer's corporate name], as Trustee for the Tennessee Housing Development Agency." Servicers must reconcile the escrow custodial account monthly. Account records and reconciliations must be made available to THDA auditors upon request.

206. Suspense Account

The Servicer must only remit even, regular principal and interest payments to THDA (Chapter III), and must deposit partial payments in suspense, using either the THDA principal and interest or escrow custodial account. If a borrower remits an amount less than or in excess of a full, exact regular or past due payment(s) that is not indicated for another purpose, the partial payment must be deposited to the suspense account on behalf of the borrower until sufficient funds are received to apply a full payment. This requirement does not apply to amounts designated as principal curtailments, which are remitted to THDA in the regular reporting process.

207. Escrow Requirements

All THDA loans must be escrowed for property taxes and hazard insurance. In addition, flood insurance, FHA premiums, PMI premiums, special assessments and similar items must be escrowed, if applicable. Condo or PUD association dues must be escrowed if required by the association by-laws. Servicers are required to maintain escrow accounts for each THDA loan, perform an annual aggregate escrow analysis for each loan account and adjust the borrower's total monthly payment as needed.

If the borrower's escrow account balance is not sufficient to pay escrow bills when due, the Servicer may deplete the escrow balance, then must advance the remainder of the amount due from its corporate funds and reflect a deficit balance in the borrower's escrow account. Escrow advances cannot be charged to the principal balance of the loan or to another borrower's escrow funds or simply to the overall balance of the escrow custodial account. Escrow funds may only be used for their designated purpose, and can not be used to pay late charges, inspection fees, assumption fees or any charges other than those for which the escrow account is intended.

208. Hazard Insurance

Hazard insurance policies must be issued only in the name(s) of the THDA borrower(s), who must be the titled property owners(s). A non-qualifying spouse or co-signer cannot be a named insured.

The insurance company issuing the policy must be licensed by the State of Tennessee, and must have a general policyholder's rating of "B" or better, or a financial performance index rating of "6" or better, as published in the A.M. Best Company's Insurance Reports.

Losses resulting from insufficient coverage, non-payment of premium, coinsurance non-compliance, lapse of coverage, or any other omission of prudent performance, shall be borne by the Servicer.

Each policy must insure against loss due to fire and other hazards covered by the standard extended coverage endorsement. Coverage should be provided on a replacement cost basis. The borrower may elect to include additional coverage, such as liability insurance, earthquake insurance (highly recommended, especially in west Tennessee) and special policy riders. Homeowner insurance policies are acceptable.

The minimum acceptable amount of hazard insurance coverage is the appraised value less the site value. Maximum coverage is determined by the insurance carrier. In all cases, the amount of coverage must be sufficient to comply with the insurer's coinsurance requirements, or the coinsurance clause must be waived by the insurance company. Maximum deductible guideline: 1% of the total loan amount (except for low LTV balances). Minimum policy term: one year. Minimum cancellation notice: 10 days.

For loans in condominium developments, the Servicer must obtain evidence of the master liability policy that covers the common areas, and the master hazard insurance policy that covers the subject building, and must secure the necessary endorsements to protect THDA's interests. In addition, the Servicer is responsible for determining adequate hazard insurance coverage for the interior portion of the structure that secures THDA's loan. If the interior is not insured by the master policy, the borrower must provide separate coverage.

For loans in PUDs, the Servicer must obtain evidence of the master liability policy that covers the common areas, and evidence of hazard insurance that covers the secured property. The subject property may be insured by an individual policy or under a master policy. Necessary endorsements must be obtained to protect THDA's interests.

Servicers are responsible for monitoring hazard insurance policies in order to detect changes in coverage or form that would indicate a property is being rented, such as when a rental coverage policy replaces a homeowner insurance policy. Upon discovery of such a change, notify THDA. (Sections 405, 406)

If THDA suffers a loss due to the Servicer's failure to require adequate coverage, the Servicer will purchase the subject loan from THDA.

209. Force-Placed Hazard Insurance

Servicers must have force-placed hazard insurance available to cover THDA's interests in the event a borrower's hazard insurance policy lapses or is cancelled. Maximum deductible is the lesser of \$1,000.00 or 1% of the loan balance. Mortgage Impairment /Mortgagee Interest Insurance is not required, but is recommended.

210. Flood Insurance

The Servicer must require flood insurance to be obtained if any improvements that secure THDA loans are located in flood zone "A" as determined by the current applicable FEMA flood map. Insurer or guarantor exemption is permitted (such as proof that improvements are above the zone A elevation); however, in such cases, Servicers should inform borrowers that their property could still be flooded, that flood insurance coverage may be available at reduced rates, and strongly advise borrowers to continue coverage. The minimum coverage required is the principal balance of the loan.

211. Mortgagee Clauses

Each hazard and flood insurance policy must include a standard mortgagee clause to protect THDA's interests. A mere loss payable clause is not sufficient. Minimum cancellation notice: 10 days. The clause should be worded in a manner to assure notice and correspondence is delivered to the Servicer, not THDA. Example: "Tennessee Housing Development Agency, c/o [servicer's name and mailing address]." Mortgagee clauses on policies that insure new THDA loans may indicate the name of the originating lender if followed by "its successor and assigns," however; the Servicer should initiate a mortgagee clause change with the insurance company no later than the first annual renewal.

212. Disclosures and Notices

Various laws and regulations require Servicers to provide periodic disclosures and notices to borrowers. The Servicer is responsible for monitoring returned mail to determine whether or not the borrower is occupying the property. Upon discovery that a property is not occupied by the THDA borrower, the Servicer must notify THDA. (Sections 405, 406)

213. Annual Certification

Upon notification from THDA, the Servicer shall provide, within 60 days of the Servicer's fiscal year-end, certain information to THDA for purposes of renewing the Servicer's authority to service THDA loans. (Section 1004A)

214. Servicer's Loan File

The Servicer shall maintain a loan servicing file with original documents other than the original Note which will be retained by THDA. The Servicer is responsible for assuring that all documents needed to service the loan are delivered promptly after closing by the OA. Document copies may be maintained on paper, microfiche or in a scanned electronic image format.

Servicers are required to obtain copies of each recorded Deed of Trust, Note and Title Insurance Policy from OAs soon after loan closing, in case a subsequent bankruptcy proof of claim must be filed or foreclosure initiated. If, in the normal course of business, the Servicer contacts THDA for copies of notes, deeds of trust and/or title policies, THDA may, at its sole discretion, charge fees for such copies. (Section 1004C)

215. Servicer's Agreements With Originating Agents (OAs)

THDA is not a party to servicing rights agreements between the Servicer and the OA. Servicers determine what documents are needed to service a loan and to comply with insurer/guarantor requirements. Servicers must require OAs to deliver needed documents to the Servicer immediately after loan closing, and in ample time to contact the borrower prior to the first scheduled loan payment.

With advance notice to THDA, the Servicer may discontinue agreements with OAs, or may refuse to accept individual THDA loan files for servicing.

THDA reserves the right to limit the number of THDA loans or percent of the total THDA portfolio that an individual Servicer may service.

216. Use of MERS System

Servicers who are MERS members, in good standing, may purchase servicing rights to THDA Loans with loan documentation showing Mortgage Electronic Registration Systems, Inc., as the nominee for Originating Agent and Originating Agent's successors and assigns for THDA Loans closed on or after July 1, 2006. The THDA loan number must be reflected on all THDA loan documentation in addition to the use of the Mortgage Identification Number (MIN) as may be assigned and required by MERS.

Servicers shall not cause THDA Loans closed prior to July 1, 2006, to be registered with MERS.

Servicer may follow MERS procedures for handling bankruptcies, foreclosures and evictions only after consultation with THDA. Servicers shall, upon THDA's request, obtain and properly record an assignment of any MERS registered THDA Loan from MERS to THDA or as THDA may direct. In the event of any dispute regarding a THDA Loan registered with MERS, Servicer shall take all steps deemed necessary by THDA to protect THDA's interest. All other requirements of this Guide and of the Servicing Agreement between THDA and Servicer shall apply to each THDA Loan regardless of registration with MERS.

CHAPTER III – REMITTANCE AND REPORTING

301. Reporting

Month-end reporting by paper forms and tapes is not used by THDA Servicers. Rather, reporting is accomplished by a specific electronic routine each work day. There are no additional reports involved. See Appendix A for step-by-step electronic reporting instructions.

By 10:00 a.m. Central Time each day, the Servicer produces an electronic file and uploads it via a THDA web site on the Internet. The file contains all transactions that took place on the prior business day, including principal and interest payments, curtailments, reversals, loan payoffs and new loans. Moments after the file is uploaded, a detailed report of errors contained in the data file is made available to the Servicer, followed by a *Remittance Confirmation and Wire Sheet*. The wire sheet indicates wiring instructions and the exact total dollar amount to be wired. Fatal errors (bad THDA ID, etc) are not included in the wire amount.

All errors must be corrected on the Servicer's computer system the same day the error report is produced by first reversing the transaction indicated on the error report, and then correcting the problem, and then reapplying the transaction. (Section 1001)

302. Remittance

Servicers remit the previous day's collected funds to the THDA Trustee by wire each business day. (See Appendix A) The exact amount indicated on the *Remittance Confirmation and Wire Sheet* must be wired to the THDA Trustee by 2:00 p.m. Central Time on the same day the *Remittance Confirmation Wire Sheet* is produced. Once errors have been corrected and the funds have been wired, the process is complete. (Section 1002)

CHAPTER IV - CUSTOMER SERVICE

401. Name Changes

THDA borrowers request changes to the names indicated on their loan accounts for various reasons. THDA servicers are required to be alert to name change requests to detect possible THDA policy violations. Servicers are obligated to inform THDA of name changes within the month in which the Servicer makes the change on their database. (Section 1004G)

A. New Spouse – The servicer may change the surname of a newly married existing borrower on a loan record, upon receipt of a copy of the Marriage License. Forward a copy of the license to THDA. New spouses who wish to be “added” to a loan must apply and be approved by the insurer/guarantor and by THDA. (Chapter IX)

B. Divorce – There are two possible name change scenarios regarding borrower divorce, depending on who retains the property.

1. Situation: Borrower retains the property after divorce.

a. Borrower and co-borrower divorce; either party retains the property.

Action: The servicer may change the loan record after providing THDA with a copy of:

- The Divorce Decree, signed by the court;
- The Final Settlement, signed by the court; and
- A copy of the recorded quitclaim deed if one has been executed.

b. Borrower retains the property after divorcing a spouse who was not a party to the loan (non-qualifying non-titled, or married after the loan was closed). A name change may not be pertinent; however, for future title questions, provide THDA with the items noted above.

2. Situation: Non-borrower retains the property after divorce.

a. Borrower divorces a non-qualifying spouse and the non-qualifying, non-titled spouse retains and occupies the property, or

b. The marriage took place after loan closing, and the non-borrower retains the property:

Action: The servicer may change the loan record after providing THDA with a copy of:

- The Divorce Decree, signed by the court;
- The Final Settlement, signed by the court;
- A copy of the recorded quitclaim deed if one has been executed;
- Approval by FHA (if originally closed after December 15, 1989), VA (if originally closed after March 1, 1988), RHS or PMI; and
- Non-qualifying surviving spouse will have to complete “Agreement to Assume Liability” form. (Section 417)

C. Death – There are three possible scenarios regarding death of a borrower:

1. Situation: Borrower dies, co-borrower survives:

Action: The servicer may change the names on the loan record. Provide THDA with a copy of the death certificate.

2. Situation: Borrower dies; spouse was a non-qualifying spouse or married the borrower after loan closing or assumption:

Action: Provide THDA copies of:

- The marriage certificate (in the case of marriage after loan closing or assumption);
- The death certificate; and
- The name on the loan record may be changed to “_____, Estate of.”

Non-qualifying surviving spouse will have to complete the “Agreement to Assume Liability” form and occupy the property. (Section 417)

3. Situation: Death of the borrower, no surviving spouse. It is important to note that the Garn-St. Germain Depository Institutions Act of 1982 does not affect THDA loans. Servicers’ attorneys may contact THDA Legal Counsel for discussion. There are two possibilities in this situation:

a. Borrower dies intestate (without a will):

Action: Obtain a copy of the death certificate and forward a copy to THDA. The name on the loan account may be changed to an appropriate descriptive form, such as “_____, estate of”. The estate should be subsequently probated. Affidavits of Heirship may be acceptable. The heir(s) may be required to apply to assume the loan (see Chapter IX) and be approved by the insurer/guarantor and THDA. If the deed of trust requires owner occupancy, the heir(s) must occupy the property as their principal residence or the loan must be paid off. Servicers should contact THDA for this determination. If more than one heir is involved, and all heirs will not occupy the property as their primary residence, the occupying heir(s) will be required to acquire sole title to the property by the time the loan is assumed.

b. Property is willed to heir(s):

Action: After probate, obtain a copy of the death certificate and documentation to prove ownership by inheritance and forward copies to THDA. The heir(s) may be required to apply to assume the loan (see Chapter IX) and be approved by the insurer/guarantor and THDA. If the deed of trust requires owner occupancy, the heir(s) must occupy the property as their principal residence or the loan must be paid off. Servicers should contact THDA for this determination. If more than one heir is involved, and all heirs will not occupy the property as their primary residence, the occupying heir(s) will be required to acquire sole title to the property by the time the loan is assumed.

D. Miscellaneous - Some situations that arise are difficult to categorize, such as a borrower who abandons the property and leaves behind a spouse who either was a non-qualifying spouse when the loan was granted, or married the borrower after the loan was closed. In such cases, THDA will work with the Servicer to attempt to resolve the situation if the remaining spouse will continue to occupy the residence.

402. Change of Property Address or Mailing Address

Servicers are obligated to inform THDA within the month in which the Servicer makes the change on their database when the address of a subject property changes, such as when a new 911 address is assigned.

Servicers are responsible for investigating and documenting the reason for a mailing address that differs from the property address. A mailing address may legitimately differ from the property address, but it could be an indication that the property is being rented. When a request for change of mailing address is received, Servicers are required to be alert for possible rental of THDA loan properties and to notify THDA in such cases (Section 405).

403. Release of Liability – Other Than Assumption

(For release of liability in conjunction with an assumption, see Section 910.)

Other than in the case of loan assumptions, requests to release a borrower from liability are usually the result of a divorce. Borrowers who have quitclaimed their interest in the subject property to another person, as in the case of a divorce, are not automatically released from liability. (Section 404) Generally speaking, THDA does not release borrowers from liability until their loan is paid in full. In the rare instance where THDA might consider releasing a borrower from liability, there must be, in THDA's sole opinion, a compelling reason. In addition, the remaining borrower's credit must be approved by the insurer or guarantor of the loan, and evidence of approval provided to THDA. THDA reserves the right to require a credit package on the remaining borrower.

404. Quitclaimed Interest

THDA Deed of Trust Riders that have been employed for new loan closings since approximately 1990 contain a provision that the loan may be declared in default if the borrower(s) conveys any of their interest in the property without THDA's permission. Quitclaiming an interest in the subject property to another person for any reason without THDA's permission may be considered a breach under the Deed of Trust.

405. Owner-Occupancy Requirement

Most THDA deeds of trust contain language either in a statement stamped on the face of the document or in a deed of trust rider that requires that the borrower continually occupy the residence. Generally, THDA's policy is not to permit renting or vacating residences that secure THDA loans; however, there are certain limited circumstances beyond the borrower's control wherein THDA may grant temporary permission. (Section 406)

For cases involving a borrower who is on active military duty, see Section 416.

Servicers are required to be alert to status changes, such as address changes and hazard insurance changes that may indicate that the property that secures a THDA loan has been rented or is vacant. If a borrower rents or vacates the home without THDA permission, they have violated the terms of the Deed of Trust.

When a Servicer discovers or suspects that the property that secures a THDA loan is being rented or is vacant, the Servicer should check their copy of the Deed of Trust for a typed statement or a statement stamped on the document or a THDA rider that says that the owner must occupy the property. If it is unclear or if in doubt, the Servicer should contact THDA for this determination.

If the Deed of Trust requires owner occupancy, the Servicer must notify THDA that the property is vacant or rented within the month of discovery and contact the borrower to inform them that the violation must be cured within 30 days. Contact may be made by telephone, but should be followed by written notification. (See Section 417 for an example cure letter.) Servicers must not automatically send a Request to Temporarily Rent or Vacate the Property form with the cure letter.

The borrower has three options to cure the breach:

- Move back into the property.
- Sell the property.
- Refinance the loan.

After 30 days, if the violation has not been cured by one of the three available options, THDA will consider withholding acceleration for a brief period of time if payments are current, the property is properly insured, maintained and winterized (if applicable) and, in THDA's opinion, satisfactory progress is being made toward curing the violation. Examples of demonstration of satisfactory progress that the Servicer may provide to THDA include: verbal status update regarding the borrower reoccupying the property by a date certain; providing THDA with a copy of an executed contract for sale and status of a buyer's loan application; or verbal or written status from borrower's new lender of borrower's application for refinance. All noted evidence must pass through the Servicer to THDA for THDA acceptance or rejection.

Servicers are responsible for monitoring, keeping THDA advised and for verifying, by any reasonable means, that the borrower is progressing toward a cure or has cured the violation. If inspections are performed, the cost may be charged to the borrower.

If the borrower fails to cure the violation within the stated time period (including brief extensions that may be granted by THDA through verbal coordination with the Servicer) the Servicer must accelerate, and, if necessary, foreclose the loan. In such situations, the Servicer must bypass normal collections and loss mitigation steps and move directly to foreclosure.

Important: If a borrower has violated the occupancy requirement and has a monetary default, each situation must be addressed individually. When a "double default" is referred to a foreclosure attorney, be sure the attorney is aware of both defaults. The cure of a monetary default does not cure a non-monetary default or visa versa.

406. Rental and Vacancy Requests

THDA may grant special temporary exceptions to the owner-occupancy requirement on a case-by-case basis for up to 12 months, typically for circumstances beyond the borrower's control. Examples are:

- Military or civilian temporary duty assignment of 12 months or less (borrower will return to the property).

- Short-term stay (12 months or less) in a nursing home or rehabilitation facility (borrower will return).
- When a borrower is transferred by their employer (involuntary) and has not had sufficient time to market the property, THDA may grant a brief period of time, typically up to 90 days (with possible extension), to facilitate a sale.

Rental and vacancy requests that are based on circumstances that are within the borrower's control are usually not acceptable. Unacceptable reasons include: marriage (combining households), outgrowing the home, dissatisfaction with the home or difficulty selling the home. Other unacceptable reasons may also exist.

Servicers are not authorized to approve rental or vacancy requests. To receive a formal decision from THDA, the Servicer must:

- Send the borrower a THDA *Request for Temporary Permission to Rent or Vacate Residence* form (Section 417); (this form should only be sent to borrowers upon request);
- Borrower completes their portion of the form and sends it **to the Servicer** with a copy of documentation supporting the request (military orders, employer's letter, listing agreement, contract for sale, etc.);
- Servicer completes the appropriate portion of the form and sends it and the documentation to THDA;
- THDA will approve or reject the request and notify the Servicer.
- Servicer notifies the borrower of THDA's decision.

THDA may automatically deny a request to rent or vacate if the borrower's payments are not current. THDA permission to rent or vacate is voided if the borrower fails to make any scheduled payment within the month it is due, fails to maintain proper hazard insurance, or, in the case of vacancy, fails to winterize the home (when appropriate) or properly maintain the yard or home. In addition, THDA may demand payment of the loan in full if it is discovered that the borrower has entered into a lease agreement involving the subject property that exceeds the approved rental period.

Servicers are responsible for monitoring approved rental/vacancy time periods. THDA will periodically provide Servicers with reports of approaching approval expirations. (Section 1003E) Servicers are responsible for verifying, by any reasonable means, that the borrower has reoccupied the home, or a sale or refinance is pending. If inspections are performed, the cost may be charged to the borrower.

If the approved time period passes and the borrower has not sold, refinanced, reoccupied the residence or received a time extension (through the Servicer) from THDA, follow the steps indicated in Section 405.

407. Federal Recapture

THDA loans closed after December 31, 1990 are subject to federal recapture tax. Recapture is an IRS requirement, not a THDA requirement. THDA loans are funded from the sale of mortgage revenue bonds. Interest earnings paid to bond investors are generally free from federal taxation, which allows the bonds to be marketed at relatively low interest rates, which in turn allows THDA to offer an interest rate to new borrowers that is typically lower than market rates. The recapture tax is designed to allow IRS to recapture a portion of the subsidy associated with below-market interest rates on THDA loans. Recapture tax liability can only be determined after the property is sold.

Payment of a recapture tax does not apply to the original borrower if the original borrower sells the property more than nine years from the date the THDA loan was closed. Refinancing a THDA loan does not trigger recapture tax liability. The determining factor is the date the property sells.

Whether the borrower will owe a recapture tax payment to the federal government, and the amount of a tax payment (if any), depends on a number of factors. They include whether the sale of the property by the original borrower occurs within the first nine years of the loan, the borrower's total household income at the time the property is sold, whether there is a gain on the sale of the home and the original THDA loan amount. The borrower is required to file IRS Form 8828 with their federal income tax return for the year in which the sale occurs, whether a recapture tax payment is due or not.

In the case of a THDA loan that closed after December 31, 1990, and is sold by assumption within nine years, the original borrower is subject to recapture and the assuming borrower is subject to recapture for a period of nine years from the date the loan is assumed. Conceivably, a 30-year THDA loan could be subject to recapture for more than the life of the loan, if sold by assumption within the first nine years of the loan, and each successive assumptor sells the property by assumption within nine years of the date they assumed the loan. Conversely, if a buyer assumes a THDA loan from the original borrower more than nine years from the date of the original loan closing, recapture does not apply to the original borrower or to the assuming borrower.

All THDA borrowers who received loans after December 31, 1990, have been furnished a recapture disclosure that is customized to their transaction. The Mortgage Administration Division will gladly reprint and mail or fax a borrower's custom recapture disclosure and explanatory information upon request.

For further information regarding the federal recapture tax, advise borrowers to contact their tax professional. Written information is available by ordering IRS Form 8828 "Recapture of Federal Mortgage Subsidy" and its accompanying instructions from any IRS office. The toll free telephone number for ordering IRS forms is 1-800-829-3676.

408. PMI Cancellation

THDA's requirements regarding PMI cancellation are different from other investors. There are two unique rules. One rule applies to loans closed prior to July 29, 1999. A second rule applies to loans closed on or after July 29, 1999 as a result of the Homeowners Protection Act of 1998.

A. THDA Conventional PMI loans closed prior to July 29, 1999, must conform to the corresponding Operating Statements of the tax-exempt bond issues from which they were funded. Those Operating Statements pledge that conventional loans will be insured to **75% LTV**. The loan-to-value ratio may be determined in either of two ways:

1. Divide the present principal loan balance by the lesser of the original sale price or original appraisal, or
2. Divide the present principal loan balance by the value indicated on a new, complete Uniform Residential Appraisal Report (URAR) (no cost to THDA). The URAR must be completed within the last 60 days by an appraiser licensed by the State of Tennessee. A Brokers Price Opinion (BPO) and other abbreviated valuation forms are not acceptable. The URAR and accompanying photos are subject to the same requirements as a new loan transaction. THDA does not select appraisers. The servicer is responsible for the selection of a qualified, licensed appraiser.

For consideration, (except for automated mid-term cancellation -- see below) submit *Request for PMI Cancellation* form (see end of chapter), the borrower's pay history (no payments 30 or more days late within the last 12 months) and current appraisal, if applicable, to THDA. The request will be approved or rejected, and the servicer will be notified.

THDA cannot grant a request to cancel PMI coverage for loans closed prior to July 29, 1999, unless the LTV is less than 75%. Servicers must forward such requests to THDA for approval or rejection. If a servicer cancels PMI coverage on this type of loan without THDA approval, and the LTV is 75% or more, the Servicer must purchase the loan from THDA. No exceptions.

In cases where Servicers employ mid-term cancellation procedures, the Servicer must

- be sure the present LTV is below 75%, as indicated in A.1. above, and
- deliver documentation to THDA that indicates the desire to cancel, the original purchase price, original appraised value and present LTV.

THDA will review the documentation and notify the Servicer of its concurrence or denial.

B. THDA Conventional PMI loans closed on or after July 29, 1999: The Homeowners Protection Act of 1998 supercedes IRS, state or federal rules and regulations that govern THDA policies; therefore, THDA Conventional PMI loans closed on or after July 29, 1999, are subject to the same PMI cancellation rules as all other conventional loans. THDA approval is not necessary; however, **you must notify THDA when cancellation takes place**.

PMI cannot be cancelled on newer THDA conventional loans (July 29, 1999, and after) until the LTV reaches **78% or less** due to obligations related to the loan's underlying bonds. One confusing factor is that the law allows borrowers the right to request PMI cancellation when their LTV reaches 80%. Although they may request cancellation, PMI cannot be cancelled on this category of THDA loans until the LTV reaches 78%. For a formal response to such a request, submit a *Request for PMI Cancellation* form (see end of chapter).

The loan should be seasoned a minimum of 24 months. If a servicer cancels PMI coverage on this type of loan without THDA approval, and the LTV is more than 78%, the Servicer must purchase the loan from THDA. No exceptions.

409. Replacement Hazard Insurance Policies

Servicers often discover that a property that secures a THDA loan has been rented or is vacant when a renter's insurance policy or a fire and extended coverage policy replaces a homeowners insurance policy. Servicers are required to be alert for possible rental of properties that secure THDA loans (Section 405).

410. Hazard Insurance Claims

Servicers are responsible for monitoring damages to properties that secure THDA loans. At times, a damage claim may become delayed due to a dispute between the borrower and the insurer, or the insurance company may suspect arson. The Servicer must take appropriate steps to enforce the mortgagee clause and cause the insurance company to expedite payment of the claim. If necessary, THDA will assign the loan to the insurance company upon payment in full. Failure to act promptly will result in the Servicer purchasing the loan from THDA.

In the case of damaged residences, the objective is to get the property restored as soon as possible. If the Servicer has reason to wonder whether a totally destroyed residence should be rebuilt or insurance proceeds should be used to pay the loan in full, they should discuss the situation with THDA.

411. Hazard Insurance Claim Checks

Servicers are authorized to endorse hazard insurance claim checks on behalf of THDA.

Servicers are responsible for proper disposition of insurance proceeds. Servicers may decide whether to place the funds into an escrow account pending restoration of damage or to release the funds to the borrower. Servicers are responsible for assuring that repairs are completed and that all proceeds are only used for repair, restoration or related costs. Servicers are responsible for assuring that no liens or claims are created that could supercede the first mortgage.

412. Partial Releases

A. Most requests for partial releases result from the state or a local government taking a portion of the borrower's yard to widen a road or construct utilities. When such requests are received, the Servicer:

- Obtains the approval of the applicable loan insurer or guarantor; then
- Submits the request and supporting documentation, the insurer's or guarantor's approval and the partial release document to THDA for signature.

THDA can be expected to sign a partial release that results from actions by a governmental entity. Proceeds received in payment for the partial release are applied first to the borrower's delinquency, if any, then as may be indicated in the Deed of Trust, or absent that, to the principal balance of the loan.

B. For many years, for new loan applications, THDA has required that properties may not be of the type or size that lends itself to being subdivided; however, at times, a borrower will request a partial release in order to sell or give a portion of their yard to another person or entity, such as a neighbor or a relative. Although THDA is not obligated to consent, in order for THDA to consider such a request, the borrower must provide the following items to the Servicer:

- A written request from the borrower, explaining the proposed transaction;
- A current survey of the property prepared by a surveyor or civil engineer who is licensed by the State of Tennessee, showing the property on which we have a lien, and the portion of the property the borrower wishes to sell or give away, and a metes and bounds description of the property to be released and the property that will remain subject to the deed of trust. In many jurisdictions, the survey or a new plat must be approved by the local planning and/or zoning commission;
- A copy of the contract for sale. If no contract has been executed, an acceptable statement that identifies the grantee and the price to be paid for the property;
- Evidence acceptable to the Servicer and insurer/guarantor that the value of the remaining property will not be adversely affected by the release;
- A Partial Release of Lien, ready for execution and notarization by THDA. The property to be released and the property that remains subject to the deed of trust must be described in a clear and logical manner, such as in metes and bounds and fraction of an acre.

Next, the Servicer

- Verifies that the transaction complies with local codes and ordinances;
- Obtains the approval of the loan insurer or guarantor; then
- Submits the request and supporting documentation, the insurer's or guarantor's approval and the partial release document to THDA for consideration.

THDA will either sign the partial release and return it to the servicer, or will deny the request and notify the servicer. Proceeds received in payment for a partial release are applied first to the borrower's delinquency, if any, then as may be indicated in the Deed of Trust, or absent that, to the principal balance of the loan.

413. Loan Payoffs, First Mortgage

Servicers are responsible for providing accurate loan payoff quotes, collecting the correct amount of funds to retire the debt, and remitting the payoff funds to THDA (Chapter III). Interest during the month of payoff may be calculated on either a 365 day basis or a 360 day basis.

In the case of THDA FHA loans that are paid in full on a date other than the first day of a month, THDA **does not require** interest to be paid through the end of the month of payoff. Servicers are encouraged to quote and process all THDA loan payoffs based on the actual day received; however, THDA will not refuse a FHA loan payoff that includes interest through the end of the month of payoff.

414. Loan Payoffs, THDA Second Mortgage

During the period of 1993 – 1998, THDA granted 10-year fixed rate second mortgage loans, called "Plus" loans, in conjunction with THDA first mortgage FHA loans for certain new borrowers. The proceeds of those loans were used for down payment assistance and/or closing cost.

For Plus loans that are owned by THDA: The Servicer must prepare the second mortgage payoff quote. Second mortgage loans owned by THDA are not assumable (see Section 909). The Servicer will provide the second mortgage Full Release of Lien and record when the payoff is processed.

415. Full Release of Lien

Beginning January 1, 2004, Servicers prepare, execute and record releases of liens for paid-in-full THDA loans. Prior to the date, THDA prepared releases and mailed to Servicers for recording.

The only document THDA will return to Servicers after a loan is paid in full is the LGC. Tennessee law does not require documents to be returned to a borrower when a loan is paid in full. If a borrower requests documents within one year after payoff, the Servicer should relay the request and the borrower's new mailing address to THDA, and THDA will mail the documents to the borrower.

The Servicer is responsible for recording the release. Failure to assure that the Full Release of Lien is properly recorded could result in a fee being assessed to the Servicer by THDA for preparation and execution of a subsequent release. Also see Section 1004E.

416. Servicemembers Civil Relief Act (SCRA)

This federal law, formerly known as the Soldiers' and Sailors' Civil Relief Act, permits certain borrowers who are on active duty in the U.S. armed forces to request special relief under certain conditions. Servicers are responsible for determining whether a borrower qualifies for relief under the act.

To assist in evaluating eligibility for relief under SCRA, as well as whether occupancy can be enforced and whether a loan can be foreclosed, Servicers should use the following decision matrix:

1. Is the borrower an active member of the military (or certain other rare situations, such as being employed by the Public Health Service)?

Yes - go to step 2.

No - not eligible.

2. Determine whether the borrower obtained their loan before they entered the military ("pre-service," including a person who was a member of an inactive reserve unit when they closed their loan) or after they entered the military ("post service"), and go to step 3.
3. Determine whether the question relates to interest rate relief, occupancy or foreclosure, and refer to matrix below.

	<u>Pre-service</u>	<u>Post-Service</u>
<u>Reduce note rate to 6%?</u>	Yes	No
<u>Occupancy</u>	Cannot enforce	Can enforce (a)
<u>Foreclosure</u>	(b)	(c)

- (a) If PCS (permanent change of station), require the violation to be corrected (refinance or sell; moving back will not be an option due to military obligation). If TDY (temporary duty, usually less than 1 year), borrower may apply for temporary rental. See Sections 405 and 406.
- (b) SCRA says we can't foreclose in the case of a pre-service active duty service member if circumstances preclude the borrower from being able to deal with the situation (such as when they are stationed in a hostile fire zone), so wait until borrower returns. Borrower may also be considered as being precluded from dealing with the situation when stationed overseas in a non hostile zone.
- (c) At this time, THDA chooses to treat post-service the same as pre-service.

Remember that borrower circumstances will often not fall neatly within the matrix. Contact THDA if questions arise.

Servicer's responsibility:

- Determine borrower eligibility.
- If granted, change the interest rate and the corresponding principal and interest payment on the Servicer's system to 6%. (Because the requirements of the SCRA are explicit, a written modification agreement is not required.)
- Coordinate the interest rate and principal and interest payment changes with THDA prior to the first scheduled 6% payment by immediately submitting a *Residential Loan Status Report/Reinstatement* form and a copy of the borrower's military orders. (THDA will not accept a principal and interest payment from the Servicer based on the original note rate, and then refund the amount that exceeds 6% to the Servicer, as some investors do.) (See Section 1004F)
- During the term of the relief, the Servicer will collect and remit a principal and interest payment based on the modified 6% interest rate.
- During the term of relief, contact the borrower at least semi-annually to determine when the interest rate and monthly payments can be restored to the terms contained in the original note.
- When the period of relief expires, coordinate the restoration of the note interest rate and principal and interest payment with THDA by submitting a *Residential Loan Status Report* prior to the first effective payment. (Section 1004F)
- If appropriate, forbearance or loan modification may be considered. (Section 506)

If situations arise during the period of relief that are not covered in this section, such as bankruptcy or foreclosure, the servicer must contact THDA.

417. THDA Customer Service Forms

Example Breach Letter - Suggested wording for a letter to be produced and mailed by the Servicer to the borrower when it is suspected or confirmed that a THDA borrower has rented or vacated the property that secures a THDA loan (Section 405). Do not enclose a *Request for Temporary Permission to Rent or Vacate Property* form with this letter.

Example Acceleration Letter - Suggested wording for a letter to be mailed 30 days after the breach letter when there has been no response from the borrower.

Request For Temporary Permission to Rent or Vacate Property - To be provided to borrowers upon request. See Section 406.

Request For PMI Cancellation – To be completed by Servicer and provided to THDA upon receipt of a borrower's request to cancel PMI on a conventional loan.

Agreement To Assume Liability -

EXAMPLE BREACH LETTER

[Servicer's Letterhead]

[Reference information.]

Dear Borrower,

In connection with the closing of your THDA home loan, two of the many documents you signed were a Note and a Deed of Trust to secure repayment of the Note. The Deed of Trust includes a Tax-Exempt Financing Rider or similar provisions that permit the Tennessee Housing Development Agency (THDA), as the lender, to require payment in full of all amounts secured by the Deed of Trust if you, the Borrower, fail to occupy the property described in the Deed of Trust.

Information has come to our attention that the referenced property is either vacant or is being rented and you the Borrower are not occupying the property. This constitutes a default under the Deed of Trust. This letter is to notify you that this default must be corrected on or before 30 days from the date of this letter. Failure to correct this default will mean that THDA is entitled to accelerate your debt, which means that the full amount owed to THDA will be due and payable. If the debt is accelerated and you do not pay the full amount due, THDA will be entitled to commence foreclosure proceedings in accordance with the terms of the Deed of Trust.

You may correct this default by 1) re-occupying the property as your principal residence (this may necessitate removing tenants), or 2) selling the property and paying your debt to THDA in full, or 3) refinancing the property and paying your debt to THDA in full.

[Other information may be included.]

EXAMPLE ACCELERATION LETTER

[Servicer's Letterhead]

[Reference information]

Dear [THDA Borrower],

We sent you a letter dated _____, 20__, notifying you of a default under the Deed of Trust you signed in connection to the referenced THDA loan. More than 30 days have passed since the date of that letter and we have had no information indicating that the default has been corrected. As a result, pursuant to the terms of your Deed of Trust, all amounts under the Deed of Trust and the Note are immediately due and payable.

Please deliver the following amounts to us immediately:

[Payoff information]

Failure to pay these amounts as instructed will result in foreclosure being commenced against the property pursuant to the Deed of Trust to satisfy your debt to THDA.

**TENNESSEE HOUSING DEVELOPMENT AGENCY (THDA)
REQUEST FOR TEMPORARY PERMISSION TO RENT OR VACATE RESIDENCE**

A. To be completed by the loan servicer.

Servicer Loan Number: _____

THDA loan number: _____

Servicer Name: _____

Servicer Contact: _____

Telephone number: _____

Borrower(s) name(s) & Property Address:

Status of Loan: ☐ Current ☐ Delinquent 30 days or more

B. Borrower(s) check and complete either Part 1 or Part 2, as appropriate.

Part 1. _____ I/We have temporarily moved or are contemplating temporarily moving out of the referenced property. I/We hereby request permission to vacate the property for a period of _____ months, beginning on _____, 20____, and ending on _____, 20____, for the reason noted below. (use back of form or attach additional page if necessary).

Part 2. _____ I/We hereby request permission to temporarily rent the referenced property for a period of _____ months, beginning _____, 20____, and ending on _____, 20____, for the reason noted below. (use back of form or attach additional page if necessary.)

(For all requests, give detailed reason):

Attached is documentation to support this request (listing contract, military orders, employer's letter, etc).

REQUEST FOR TEMPORARY PERMISSION TO RENT OR VACATE RESIDENCE, continued

C. The following section applies to all requests:

I/We acknowledge that THDA is under no obligation to approve this request. If this request is granted, I/we agree that I/we will, prior to the expiration of the approval noted below, either reoccupy the property as my/our primary residence, or will pay the THDA loan in full.

I/we further agree that I/we will: (1) not lease the property for a term exceeding the approved period; (2) will obtain and maintain the proper form of hazard insurance coverage during the period of this approval; and (3) will maintain the property in good condition, including appropriate winterizing (if vacant) and mowing the yard, as appropriate.

I/We acknowledge that the Internal Revenue Service allows no interest deduction on my/our federal income tax return if the property is not my/our principal residence for a period of one year or more.

I/We agree that if this request is approved, but any subsequent loan payment is not made when due, any such approval is void, and a default will exist under the Deed of Trust. Following notice and, if specified in the Deed of Trust, opportunity to cure, THDA shall have the right to demand payment of the loan in full. If, after such demand, the loan is not paid in full, THDA may immediately pursue any remedies available under the terms of the Deed of Trust. I/We acknowledge and confirm that all terms and conditions of the Deed of Trust are in full force and effect.

Agreed to this _____ day of _____, 20_____.

Borrower

Borrower

FOR THDA USE:

Request Received: _____ Not Prohibited by Deed of Trust: _____

Request Denied: _____ Request Approved: _____ Approval Expires: _____

Conditions and Comments:

THDA by: _____

Date: _____

**Request for PMI Cancellation
(THDA Conventional Loans)**

Date: _____ Servicer Name: _____

Servicer Loan # _____ THDA Loan # _____

Servicer Contact: _____ Phone: _____ Email: _____

Borrowers: _____

Address: _____

Calculate LTV by one of the two following methods:

Original Sale Price: \$ _____ Current Principal Balance: \$ _____

Original Appraisal: \$ _____

LTV: (Current Balance divided by lesser of Original Sale Price or Original Appraisal) _____%

Current Appraised Value: \$ _____ Current Principal Balance: \$ _____

LTV: (Current Balance divided by Current Appraised Value): _____%

Completed by: _____ Date: _____

Include the following attachments:

- 1) Written request from borrower(s), if applicable
- 2) One year (minimum) pay history
- 3) New appraisal (if applicable)

**Forward to: Attention: Debbie Couch, Mortgage Administration
THDA
404 James Roberson Parkway, Suite 1114
Nashville, TN 37243-0900**

FOR THDA USE ONLY

___ Approved ___ Rejected By: _____ Date: _____

Comments: _____

AGREEMENT TO ASSUME LIABILITY

With this Agreement, dated _____, 20____, between the Tennessee Housing Development Agency (THDA) and _____, the Assumptor(s), with _____ acting as Servicing Agent, the parties agree to the following:

WHEREAS, THDA made funds available to _____ in the amount of _____ and ____ /100 Dollars US (\$_____), which was used by the original borrowers to purchase certain property located at [street address] _____, [city] _____, [zip code] _____, _____ County, Tennessee (the Property); and

WHEREAS, the debt incurred, payable to THDA, is evidenced by a certain Note dated _____, _____, in the original principal amount of \$_____ and secured by a certain Deed of Trust dated _____, _____, of record in Book _____, page _____, in the Registers Office for _____ County, Tennessee; and

WHEREAS, the Assumptor(s), _____, because of circumstances related to the latest borrower's death, divorce and/or abandonment, wishes to assume and agree to pay the amounts due under the Note and Deed of Trust (the Indebtedness) and to perform all obligations under the Note and Deed of Trust; and

WHEREAS, the Servicing Agent services certain THDA loans, including the debt evidenced by the Note and Deed of Trust; and

WHEREAS, THDA is willing to consent to the assumption of the Indebtedness by the Assumptor(s), subject to the conditions set forth herein;

NOW, THEREFORE, the parties hereto agree as follows:

1. THDA hereby consents to the assumption of the debt, subject to this Agreement.
2. Assumptor(s) does hereby assume and agree to be bound by the terms of the Note and Deed of Trust, to pay the Indebtedness according to the terms stated therein, except as modified below, and to perform all of the terms, covenants and conditions of the Note and Deed of Trust.
3. As of the date of this Agreement, the total principal amount outstanding under the Note is _____ and ____/100 Dollars (\$_____) and the Note interest rate is _____ percent per annum.
4. Assumptor(s) shall make monthly payments to the Servicing Agent beginning the first day of _____, 20____, in the total amount of _____ and ____/100 Dollars (\$_____) per month, which includes _____ and ____/100 Dollars (\$_____) per month to be applied first to interest and then to principal until the Indebtedness is paid in full. The remaining sum of _____ and ____/100 Dollars (\$_____) per month being one-twelfth of the amount estimated to be sufficient to pay taxes, insurance and similar required amounts regarding the Property when due. This amount, which may be revised from time to time, shall be placed in escrow by the Servicing Agent to pay said amounts as they come due.
5. Assumptor(s) hereby covenants and warrants for the benefit of THDA as follows:
 - a. Assumptor(s) has not omitted or misrepresented a fact that is material to THDA program requirements or Section 143 of the IRS Code with respect to the assumption of the Indebtedness.

Agreement to Assume Liability, continued

- b. Assumptor(s) acknowledge(s) that (i) the Note and Deed of Trust are in full force and effect; (ii) there are presently no defaults under the terms of the Note and Deed of Trust; (iii) there exist no charges, liens, claims or offsets against the Servicing Agent or THDA; and (iv) there are not and there have not been any events, acts or omissions which have occurred or which, with the passage of time, would constitute a default under the Note or Deed of Trust.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement to Assume Liability as of the day and date first written above.

TENNESSEE HOUSING DEVELOPMENT AGENCY (THDA)

Assumptor

By: _____ ON BEHALF OF THDA
Servicing Agent Name

Assumptor

Signed: _____

Name: _____

Title: _____

State of _____)

County of _____)

Before me, _____, a Notary Public of the state and county named, personally appeared _____ and _____, the within named Assumptor(s), with whom I am personally acquainted (or proved to me on the basis of satisfactory evidence), and who, upon oath, acknowledged that (s)he/they executed the foregoing instrument for the purposes therein contained.

Witness my hand and seal, at office, this _____ day of _____, 20____.

Notary Public

My Commission Expires: _____

State of _____)

County of _____)

Before me, _____, a Notary Public of the state and county named, personally appeared _____, with whom I am personally acquainted (or proved to me on the basis of satisfactory evidence), and who, upon oath, acknowledged him/herself to be the _____ of _____, the within named Servicing Agent, and that (s)he, as such _____, executed the foregoing instrument for the purposes therein contained, by signing the name of the Servicing Agent by him/herself as _____.

Witness my hand and seal, at office, this _____ day of _____, 20____.

Notary Public

My Commission Expires: _____

September, 2001

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CHAPTER V - DELINQUENCY

501. Guidelines for Dealing with Delinquencies

The Servicer must be aware that THDA loans are granted to borrowers with moderate, low and very low household incomes. The financial circumstance of many THDA borrowers is such that seemingly small budget challenges may upset their ability to satisfy financial obligations. The Servicer's best method to guard against high delinquency rates, bankruptcies and foreclosures is early intervention.

The Servicer is obligated to counsel and assist delinquent borrowers to bring their loan payment schedules current within the shortest time possible. Each THDA loan should be serviced with flexibility, based upon the Servicer's knowledge of the borrower's past performance, the location and type of property and the severity of the delinquency. It is THDA's general philosophy that the borrower is permitted to pay their loan current and remain in the property, providing they cooperate with the Servicer and fulfill their promises to pay.

Particular attention should be paid to the promptness with which payments are received from new borrowers. A Servicer should stress that the borrower's monthly payments are due by the first day of each month, although late charges are not imposed until after the 15th.

Collection records for each loan account must be retained and are subject to THDA review. If the Servicer is unsure of the correct answers to borrowers' questions, the Servicer should call THDA for assistance. When borrowers call THDA, they are referred to their Servicer. Servicers must not refer borrowers to THDA.

A great degree of attention should be given to borrowers who frequently allow their payment schedule to become 30 days past due, and borrowers who frequently remit their payment late in the month in which it is due. The Servicer is required to develop a plan to reduce the number of borrowers who fall in this category. Sending a reminder notice when a payment is not received by the 10th of the month and making telephone contact with the borrower if payment is not received by the 17th should be considered. It is highly recommended that slow-paying borrowers be referred to credit counseling agencies, if practical.

Methods to bring a slow or delinquent borrower's payment schedule current should include any reasonable pay plan. Weekly, bi-weekly or other non-traditional pay plans may be used, at the Servicer's discretion.

Loan accounts that are 30 or more days past due must be collected in a consistent manner until current or liquidated.

502. HUD Loss Mitigation Program

HUD's Loss Mitigation Program was introduced as a last effort to salvage a borrower's home and avoid foreclosure. THDA supports the loss mitigation philosophy and highly recommends that Servicers employ such methods with all delinquent loan types.

For details regarding repayment agreements, forbearance agreements and loan modifications, see Section 506.

If the Servicer feels that a requirement contained in this chapter conflicts with HUD Loss Mitigation guidelines, the Servicer should discuss the matter with THDA.

503. Losses

The Servicer is responsible for losses or potential losses resulting from omissions or actions that are not in compliance with FHA, VA, RHS or PMI guidelines and/or this Guide. Examples follow. Others could exist.

- A. Active Loans - THDA reserves the option to require the Servicer to purchase loans that involve losses or potential losses that are the result of Servicer's inactions or improper actions.

Examples:

1. Denial of a hazard insurance or liability claim due to the actions or omissions of the Servicer.
2. Loss of hazard insurance proceeds disbursed by Servicer due to borrower or contractor fraud and Servicer's failure to monitor property restoration in a prudent manner.

- B. Foreclosed Loans - Most losses of this type relate to the Servicer missing claim submission deadlines.

Examples:

1. Denial, curtailment or reduction of a claim by FHA, VA, RHS or PMI, including shortage, reduction or curtailment of principal, interest or allowable expenses.
2. Deterioration of REO property due to Servicer's inaction.

If a loss occurs, the Servicer must repurchase the mortgage or reimburse THDA for the amount of the loss, upon notice from and at the election of THDA. If the Servicer fails to comply, THDA may withhold any or all of the Servicer's future expense reimbursements (up to the amount of the repurchase or reimbursement) until the Servicer complies, or other remedies deemed appropriate by THDA. (Section 1003)

504. Delinquency Inspections

The Servicer must adhere to insurer/guarantor guidelines that may differ from the following.

Personal contact cannot be made with a borrower who has declared bankruptcy. In the case of accounts involving bankruptcy, only drive-by inspections may be performed. See Section 605.

Prior to an account becoming 60 days past due (45 days if FHA), a physical inspection of the property must be conducted. Subsequently, if the account remains delinquent for an additional 60 days, the property must be inspected again. Continue this schedule of inspections, as a minimum, until the account is paid current or is liquidated

- A. A concerted effort must be made by the inspector to make personal contact with the occupant (if the borrower is not in bankruptcy). If the residence is vacant or no one is home, a neighbor should be discreetly contacted in order to determine occupancy. Inspectors must be very cautious when speaking with a non-borrower in order to protect borrower privacy.

- B. The condition of the property must be evaluated. If the borrower is not in bankruptcy, the inspector must view all exterior sides of the residence. Circumstances that prevent a complete exterior visual inspection must be stated on the inspection report. Property discovered to be rented, condemned, abandoned or deteriorating beyond normal wear and tear must be reported immediately by the Servicer on Form S-601 *Residential Loan Status Report/Reinstatement* (Appendix B).
- C. If not in bankruptcy, inform the borrower or leave a message for the borrower to contact the Servicer immediately. If a message is left with a non-borrower, leave only the Servicer's telephone number.

Inspection reports must be retained by the Servicer, and are subject to THDA review.

The cost incurred for delinquency inspections are the Servicer's responsibility. If a delinquent loan is fully reinstated, the Servicer may collect inspection fees from the borrower at the time of reinstatement. If a delinquent loan is subsequently liquidated, the cost of inspections may be submitted with other foreclosure expenses for THDA reimbursement.

505. First Payment Defaults

The Servicer should conduct a face-to-face interview with new borrowers who fail to remit their first scheduled payment by the 15th day of the month. When it is not possible to conduct a face-to-face interview, contact the borrower by telephone, by mail or other available means. Records of telephone conversations and attempts to contact the borrower must be retained, and are subject to THDA review.

506. Repayment, Forbearance and Modification Agreements

THDA loans that exceed six (6) delinquent payments must be recommended for foreclosure, unless the borrower is in bankruptcy or the Servicer has negotiated an agreement whereby the borrower will pay the loan current by one of the following methods. For borrowers on active military duty, See Section 416.

- A. Repayment Agreement - Servicer grants the borrower a specified period of time (up to 12 months) in which to eliminate the delinquency by remitting more than the regular scheduled payment. The Servicer is encouraged to negotiate a Repayment Agreement with each delinquent borrower, if practical. THDA approval is not required
- B. Forbearance Agreement - at the Servicer's recommendation, THDA may agree to allow a reduction or suspension of regular monthly payments for a specified period of time. A Forbearance Agreement must be a logical solution to the borrower's financial situation, and must have a reasonable expectation to succeed. This remedy should not be proposed to THDA (using a Form 601, *Residential Loan Status Report/Reinstatement* form) unless the loan can be expected to be paid current within 12 months.

If the borrower fails to comply with the terms of a Forbearance Agreement, the Servicer must submit a new Form S-601 to obtain THDA approval to enter into a subsequent agreement. Failure to do so may result in the Servicer purchasing the loan.

Prior to recommending a Forbearance Agreement to THDA, the Servicer should inspect the property to determine the condition of the collateral. If inspection fees, recording fees or other incidental costs are incurred, the Servicer may collect such fees from the borrower, as permitted by the insurer/guarantor.

- C. Modification Agreement - at the Servicer's recommendation, THDA may agree to allow modification of the note and/or deed of trust, which may include a short extension of the original maturity date. THDA will not consent to a reduction in the interest rate indicated in the note and will not consent to an extension of the loan term by more than six months from the original maturity date.

If the borrower's circumstances justify a Modification Agreement, it should be recommended to THDA prior to resorting to foreclosure; however, it should not be recommended without solid justification. A borrower who has had difficulty paying their monthly loan payment should not be expected to pay a larger loan payment unless their current financial circumstances justify an increase. A modification must be a logical solution to the borrower's financial situation, and must have a reasonable expectation to succeed.

One way to modify a THDA loan that is up to six payments delinquent is to change the interest paid-to date to a current status after collecting delinquent escrow payments and Servicer advances from the borrower and after the borrower has executed a Modification Agreement. The modification will not change the monthly principal and interest payment, but will extend the loan term by the number of months the loan is delinquent. This tool may not be used more than once.

Another modification method is to add delinquent interest and escrow to the principal balance, recalculate the principal and interest payment based on the remaining term and change the interest paid-to date to a current status. This will result in a higher monthly payment.

THDA borrowers may not be charged a fee, whether refundable or non-refundable, for processing or entering into a Modification Agreement. Servicers are only allowed to collect cash payments from borrowers for delinquent escrow payments, late charges, recording fees and Servicer advances, such as inspection fees. Any other fee charged to borrowers for processing or entering into a Modification Agreement must be approved by THDA.

Submit Form S-601 (*Residential Loan Status Report/Reinstatement*) to obtain THDA permission to enter into a Modification Agreement with the borrower. Modification Agreements that involve an extension of the loan term are prepared by THDA. If the borrower fails to comply with the terms of a Modification Agreement, the Servicer may consider negotiation of a subsequent agreement that does not include an extension of the loan term. Failure to submit a Form S-601 to obtain THDA approval of a subsequent agreement may result in the Servicer purchasing the loan.

Prior to recommending a Modification Agreement to THDA, the Servicer should inspect the property to determine the condition of the loan security. It is the Servicer's responsibility to collect inspection fees, recording fees and delinquent escrow payments from the borrower.

When a borrower is paying more than a regular scheduled monthly payment due to a forbearance plan or non-traditional pay plan, all amounts in excess of one or more even monthly payments must be placed into a suspense account until a regular scheduled monthly payment (PITI) is accumulated, at which time the accumulated payment may be applied to the loan. (Section 206)

If late charges or inspection fees are imposed, and the loan is current, they should be deducted prior to depositing excess funds into the suspense account. Late fees, inspection fees, or any other costs or fees may not be added to the principal balance or charged to the escrow account.

Any loss mitigation approvals should be entered with the approval date via the THDA website.

507. Abandonment

Immediately upon discovering that the property that secures a THDA loan has been abandoned, the Servicer must inspect the property to determine if damage or vandalism has occurred. Obtain a vacancy permit from the borrower's hazard insurance carrier, when appropriate. The Servicer must immediately submit Form S-601 Residential Loan Status Report/Reinstatement to THDA with a recommendation of action, and comply with the notification and reporting requirements of the insurer or guarantor of the loan. (Section 1003F)

With respect to FHA and VA loans, immediately upon discovering that the property has been abandoned, the Servicer must send "Notice of Default" to FHA or "Notice of Intent to Foreclose" to VA, regardless of the extent of the delinquency. The Servicer must request VA waiver of the normal 30-day waiting period in all cases of abandonment concurrent with filing of the Notice of Intent to Foreclose.

CHAPTER VI - BANKRUPTCY

601. Notification of Bankruptcy Filing

The Servicer is responsible for sanctions or monetary losses that result from the Servicer's violation of procedures mandated by Federal Bankruptcy Law. When the Servicer receives a Meeting of Creditors notice ("341 Form") from the bankruptcy court, or any other form of bankruptcy notification, all collection efforts and contact with the borrower must cease immediately.

The Servicer must enter bankruptcy information via the THDA website within 24 hours (business days) of receipt. Information to be entered should be the bankruptcy case number, the type of filing (Chapter 7 or 13), the date of filing, and the meeting of creditors date. The Servicer may enter any additional information in the comment section.

602. Notification of Bankruptcy Discharge or Dismissal

When Servicers receive a notice of discharge or dismissal from a bankruptcy court, enter the dismissal date on the THDA website within 24 hours (business days) of receipt.

603. Bankruptcy Attorney

It is the Servicer's responsibility to engage a qualified bankruptcy attorney or law firm to protect THDA's interests in the loan and property in bankruptcy. THDA does not approve bankruptcy attorneys, but reserves the right to require the Servicer to discontinue use of individual attorneys or law firms for THDA loans due to unsatisfactory performance.

Attorney fees must comply with FHA, VA, RHS, and PMI guidelines, as applicable.

604. Meeting of Creditors

Representation of THDA's interests at meetings of creditors by a legal professional (Section 603) is mandatory. The Servicer is responsible for timely delivery of bankruptcy notification and documentation to the selected attorney, in order to allow the attorney sufficient time to attend the Meeting of Creditors. The attorney must be prepared to offer a formal Reaffirmation Agreement (Chapter 7), object to an unrealistic repayment plan (Chapter 13) or move that the property be excluded from the bankruptcy, as appropriate.

605. Bankruptcy Inspections

When a notice of bankruptcy is received, the Servicer should order a drive-by inspection prior to the meeting of creditors to verify that the property is occupied and to determine if there is visible damage to the property. **The inspector may not contact the borrower or enter onto the property.**

The cost incurred for bankruptcy drive-by inspections are the Servicer's responsibility. If a bankrupt borrower is subsequently discharged or dismissed, the Servicer may collect inspection fees from the borrower after their payment schedule is current. If a loan in bankruptcy is subsequently foreclosed without reinstatement, the cost of bankruptcy inspections may be submitted with other foreclosure expenses for THDA reimbursement.

606. Chapter 13 Bankruptcy

For all loans subject to a Chapter 13 bankruptcy:

- A. If the Servicer does not receive a payment from the Trustee for two consecutive months, the Servicer must:
 - 1. contact the Trustee for a status of the plan, and
 - 2. order a drive-by inspection of the property (Section 605). If the property is found to be abandoned, the Servicer must telephone a THDA bankruptcy/default staff member at (615) 741-5855 or (615) 741-5712.
- B. If a payment is not received from the Trustee for three consecutive months, the Servicer must immediately instruct their bankruptcy attorney to file a motion with the bankruptcy court for relief from the automatic stay.

Servicers must provide annual escrow analysis notification to the Trustee to allow adjustments to the plan. If the Servicer fails to notify the Trustee of escrow adjustments, and, as a result, the borrower's account remains delinquent at the end of the chapter 13 plan, and the bankruptcy court declares the payment schedule current, the Servicer will be liable for the amount affected by the court's ruling.

607. Chapter 7 Bankruptcy

The Servicer may approve a Reaffirmation Agreement with a borrower who is in an active Chapter 7 Bankruptcy if the loan is current.

If the loan is not current, but the Servicer feels that it is in the best interests of THDA to allow a borrower who is in a Chapter 7 bankruptcy to reaffirm the debt, the Servicer may approve a Reaffirmation Agreement with the borrower, provided the accompanying repayment agreement conforms to Section 506.

608. Bankruptcy Reports

Periodically, THDA provides each Servicer with a bankruptcy report indicating loans previously reported in bankruptcy. The Servicer must review the report, delete discharged or dismissed cases, add new cases not reflected on the report and enter into the THDA website within 15 days. This is mandatory. (Sections 1003E and F)

CHAPTER VII - FORECLOSURE

701. **Foreclosure, General**

For cases involving a borrower who is on active military duty, see Section 416.

Servicers are authorized to approve foreclosures on behalf of THDA, and are authorized to execute the Appointment of Substitute Trustee on behalf of THDA; however, it is critical that THDA be informed of this loan status change. As evidence of foreclosure approval, the Servicer must immediately enter the foreclosure approval date via the THDA website.

The Servicer is responsible for compliance with all laws and regulations regarding foreclosure, claims and property disposition.

The Servicer must advance funds for expenses incurred during foreclosure proceedings. After the foreclosure sale and disposition, the Servicer may request reimbursement of expenses incurred by submitting THDA Form S-611 Statement of Foreclosure Expense (Appendix B). THDA will typically reimburse all expenses which THDA considers reasonable and necessary, and which are not reimbursed by FHA, VA, RHS or PMI. (Sections 1003D and G)

The Servicer is responsible for any loss incurred due to failure to comply with FHA, VA, RHS or PMI foreclosure guidelines or failure to file timely claims and reports to the applicable insurer or guarantor on behalf of THDA.

If a foreclosure is set aside or superceded by a bankruptcy filing or by order of a bankruptcy court, Servicers are responsible for returning the original documents to THDA by a trackable method, such as certified mail. Failure to return original documents may result in the Servicer purchasing the loan. (Section 1004D)

702. **Choice of Foreclosure Attorney**

The Servicer is responsible for selecting foreclosure attorneys. THDA does not approve foreclosure attorneys, but reserves the right to require the Servicer to discontinue use of individual attorneys or law firms for THDA loans due to unsatisfactory performance.

703. **Deed in Lieu of Foreclosure**

A deed in lieu of foreclosure is usually not acceptable in the case of a conventional uninsured loan; however, a deed-in-lieu is usually preferred to foreclosure for all other loan types. A deed in lieu of foreclosure cannot be accepted without THDA permission. Submit Form S-601 *Residential Loan Status Report/Reinstatement*.

If the borrower offers or is willing to execute a deed in lieu of foreclosure, the Servicer should recommend THDA approval if the Servicer determines that such action is in the best interest of THDA, that clear, marketable title will be obtained, and that insurance or guaranty benefits from FHA, VA, RHS, or PMI will not be reduced or impeded. A cash consideration will not be paid to the borrower for voluntary conveyance of the mortgaged property unless the cash payment is eligible for reimbursement by the insurer or guarantor of the loan.

The property should be vacant at the time the borrower executes a deed-in-lieu. If the Servicer obtains the prior approval of the loan insurer or guarantor, the Servicer may allow a reasonable predetermined period of time for the borrower to vacate the property.

704. Responsibilities During Foreclosure

During the foreclosure process, the Servicer must inspect the property at least monthly. The Servicer must take immediate action to protect and secure property that is discovered to be vacant. The Servicer must contact THDA if a property is found to be condemned, vandalized or damaged by fire, storm or other hazard.

The Servicer must retain the borrower's escrow funds, unapplied suspense funds, insurance policies, tax receipts and expense bills. If the borrower's escrow funds are insufficient to pay taxes, insurance premiums or other escrow expenses as they become due during foreclosure, the Servicer must advance their corporate funds to pay such expenses to protect THDA's interests. Such advances will be reimbursed by THDA upon receipt of claim or liquidation proceeds.

The Servicer must strictly conform to all insurance or guaranty guidelines and promptly forward all required reports and documentation to the loan insurer or guarantor.

705. Bidding Instructions

The Servicer is responsible for issuing bidding instructions to its attorney who will conduct the foreclosure sale, unless directed otherwise by THDA.

- A. Uninsured conventional mortgages: Servicer must contact THDA 15 or more days prior to the sale date to finalize the bid.
- B. Insured conventional loans: The Servicer must contact the insuring PMI company for bid concurrence.
- C. FHA: If concurrence is needed, the Servicer must contact HUD.
- D. VA: An amount in excess of the "upset price" established by the VA can not be bid on behalf of THDA. If the upset price is not received from VA by the day of the foreclosure sale, the sale must be postponed.
- E. RHS: Follow RHS guidelines regarding bidding instructions.

After a bid is issued to the foreclosure attorney, the Servicer must assure that the foreclosure attorney does not deviate from the authorized bid. Bids may not be rounded up or down after legal fees are added.

706. Offer To Pay Current During Foreclosure Proceedings

This section does not apply in the case of a non-monetary default. See the end of Section 405.

During the foreclosure process (monetary default), the Servicer may accept an offer by the borrower to pay their loan schedule current without THDA permission; however, an offer to pay current may not be **refused** without THDA's concurrence.

When an offer to pay the loan current is accepted, and funds are received, the Servicer must:

- A. prevent additional foreclosure costs and expenses from being incurred,
- B. apply the funds needed to pay the borrower's loan current,
- C. pay all foreclosure expenses, and
- D. report details of the transaction to THDA via the THDA website.

707. Reinstatement During Foreclosure Without Paying Current

Prior to conducting the foreclosure sale, the Servicer may accept a written Repayment Agreement without THDA's permission, if the agreement conforms to Section 506. The Servicer may also accept payment of all delinquent principal, interest, escrow, late charges and incurred foreclosure expenses, as indicated in the applicable portions of Section 706.

The Servicer must immediately inform THDA of this status change. (Section 1003F)

If the Servicer agrees to cancel a foreclosure sale and enters into a Repayment Agreement, the Servicer is responsible for collecting incurred foreclosure expenses from the borrower. If the borrower defaults on the Repayment Agreement and the loan is placed into foreclosure again, THDA will not reimburse the Servicer for previous foreclosure expenses.

708. Bankruptcy During Foreclosure

When a borrower files bankruptcy during the foreclosure process, foreclosure approval is void, and the sale must be canceled. Additional foreclosure expenses must not be incurred. If original documents are in the Servicer's possession, they must be returned to THDA as indicated in Section 701. The Servicer will need to remove the foreclosure approval date and enter bankruptcy information via the THDA website.

If the bankruptcy is subsequently dismissed and the loan is reinstated and is again approved for foreclosure, the Servicer must submit a new foreclosure approval date via the THDA website.

709. Responsibilities Following Foreclosure

After the foreclosure sale is conducted, the Servicer must comply with FHA, VA, RHS or PMI guidelines.

Within 48 hours (business days) of the foreclosure sale the Servicer must enter the foreclosure sale date via the THDA website. Within the same calendar month in which the foreclosure sale is conducted, the Servicer must take appropriate action to prevent the loan from appearing as an active loan in their database. In THDA's terminology, this is called "deactivating" the loan.

Under Tennessee law (TCA 13-23-127), THDA is exempt from payment of the state portion of document recording fees. Servicers must be sure their foreclosure attorneys are aware of this exemption. THDA will not reimburse Servicers for tax fees paid to record a Trustee's Deed that conveys property to THDA.

710. Conveyance and Claim Procedures

Except in the case of conventional uninsured and RHS guaranteed loans, unless advised otherwise by THDA prior to foreclosure, the Servicer may assume THDA intends to convey title to the property to the insurer or guarantor of the loan. Conveyance must be accomplished by use of the instrument specified by the insurer or guarantor.

The Servicer is responsible to ensure that the correct instrument of conveyance is used to convey foreclosed properties to the insurer or guarantor. Servicers are authorized to execute instruments conveying foreclosed properties to HUD, VA or PMI companies on behalf of THDA. (This authorization is not to be confused with conveying REO properties to a purchaser. See Section 807.) Fax or mail a copy of the executed instrument of conveyance to THDA at the same time it is submitted to the insurer or guarantor.

The Servicer is responsible for the expeditious filing of claims with FHA, VA, RHS or PMI, as applicable (see Section 1003). The Servicer should either cancel the hazard insurance coverage and consider the refund in preparing the claim, or obtain policy endorsements to FHA, VA, or PMI, as applicable.

The Servicer must indicate THDA's mortgagee number (49390-0999-7) and the applicable THDA loan number when filing FHA claims.

For VA claims the Servicer should include a preliminary billing for the "upset price" with the "Notice of Election to Convey." If VA declines to establish an upset price, the Servicer must complete and execute a claim for guaranty, submit the claim to VA and await further instructions from VA or THDA regarding disposition of the property.

For PMI claims, if the PMI company elects to pay THDA's claim rather than accept title to the property, the Servicer must file the claim according to the PMI policy or guidelines.

Simultaneous with the filing of an expense claim with FHA or claim form 26-1874 with VA, the Servicer must submit Form S-611 *Statement of Foreclosure Expenses* to THDA, accompanied by a copy of the FHA/VA claim. As a minimum, for claims that are filed expeditiously, THDA will reimburse Servicer's foreclosure and disposition expenses based on the foreclosure expenses reimbursed by FHA or VA. For late claim filing and related topics, see Section 1004.

The Servicer should instruct FHA, VA, or PMI to deliver their correspondence to the Servicer and copy THDA. See Section 503.

For uninsured conventional and RHS loans, see Section 807.

Chapter VIII - REAL ESTATE OWNED (REO)

REO is property acquired by THDA through foreclosure. Technically, all properties for which THDA enters a high bid at foreclosure become REO, however, THDA does not classify FHA or VA foreclosed loans as REO because of pending insurance or guaranty claims. In THDA terminology, REO is composed of foreclosed conventional uninsured loans, RHS loans, and other loan types for which a claim has been denied.

801. Post-Foreclosure Responsibilities

After the foreclosure sale is conducted, the Servicer must enter the foreclosure sale data and REO date via the THDA website and deactivate the loan on the Servicer's records, as indicated in Section 709. (Section 1003F)

Immediately following the foreclosure sale, the Servicer must secure the property. If the property is still occupied, eviction should be initiated, if necessary. When the eviction takes place, the Servicer must assure that the sheriff will be directed to contact either the Servicer or a moving company, **not** THDA.

After THDA has acquired title, it is the Servicer's responsibility to initiate loan guaranty or insurance claims.

802. RHS ("Farmers Home")

The foreclosure, claim and listing processes for RHS guaranteed loans are different from other loan types in several ways. For example, RHS never takes title to a property after foreclosure. Servicers who accept RHS loans for servicing are responsible for complying with RHS procedures and guidelines. The Servicer will handle the REO until a claim is received from RHS. If after six months the property has not sold, the Servicer will submit the claim to RHS and contact THDA to take over the REO. THDA Claim For Expenses Form S611 should also be sent to THDA.

803. REO Hazard Insurance

It is the Servicer's responsibility to ensure that REO properties are adequately protected by hazard insurance. The Servicer is liable for uninsured casualty losses.

804. Accidents on REO Property

THDA maintains General Liability Insurance against bodily injury caused by accidents arising from the operation, maintenance or use of property owned by THDA. The Servicer must immediately report any accident occurring on REO property to THDA. Furnish all information regarding time, place, circumstances, names and addresses of injured parties and witnesses.

805. Conventional And Uninsured Loans

The Servicer will enter the foreclosure sale date via the THDA website and prepare any PMI claim to be processed. The Servicer will then prepare the THDA Claim for Expenses Form S611 and mail it along with the file to THDA. THDA will handle and market the REO.

806. After Contract For Sale is Accepted

For properties that were subject to RHS loans, the Servicer must comply with RHS requirements. Copies of all required documents must be retained by the Servicer in order to file a guaranty claim with RHS after the property is sold.

When preparing to convey the property to a purchaser, the Servicer and settlement agent should be aware that, as a state agency, THDA is exempt from city or county property taxes during THDA's period of ownership. (Section 709)

807. Conveyance and Claim Procedure

After REO property has been conveyed to the new owner, the Servicer must submit the proceeds check, all closing documents and THDA Form S-611 *Statement of Foreclosure Expense* (Appendix B) to THDA for reimbursement. THDA will review the expense statement for acceptability and forward a reimbursement check to the Servicer.

As a minimum, for claims and dispositions that are completed expeditiously, THDA will reimburse the Servicer's foreclosure and disposition expenses based on the foreclosure expenses reimbursed by RHS or PMI companies. For late claim filing and related topics, see Section 1003.

CHAPTER IX – ASSUMPTIONS

901. General Information

Servicers that process loan assumptions will find that THDA assumption requirements differ from other investors' loans in several respects. Because THDA loans are funded from the proceeds of mortgage revenue bonds that are generally free from federal taxation, certain program and IRS rules affect the loan assumption process and the eligibility of borrowers.

Disaster Relief and Economic Recovery Program loans are not assumable.

Servicers are required to comply with FHA, VA, RHS or PMI assumption requirements, although they are not cited in this Guide. This chapter is designed to assist Servicers in understanding the unique requirements of THDA assumptions.

Assumption applications must be approved by the insurer/guarantor prior to being submitted to THDA.

The assumption application must conform to the first-time homebuyer rule, maximum household income limits and maximum acquisition costs. With the exception of older loans that permit increases in the interest rate in the case of non-qualifying assumptions, the note interest rate and principal and interest payment do not change for the assuming buyer, and cannot be negotiated. The loan must fully amortize within the remaining term, based on the original date of closing. See Section 903 for an exception.

All THDA loans closed on or after January 1, 1991 are subject to recapture for a period of nine years (Section 407). In the case of a THDA loan that closed after December 31, 1990, and is sold by assumption within nine years, the original borrower is subject to recapture and the assuming borrower is subject to recapture for a period of nine years from the date the loan is assumed. Conversely, if a buyer assumes a THDA loan from the original borrower more than nine years from the date of the original loan closing, recapture does not apply to the original borrower or to the assuming borrower.

Servicers may charge and collect assumption fees, however, those fees must comply with the regulations of the insurer or guarantor. For conventional uninsured loans, the Servicer may not charge an assumption fee that is greater than they would charge for similar non-THDA loans.

THDA must approve all assumption applications. If a Servicer allows a THDA loan to be assumed without THDA approval, the Servicer must purchase the loan from THDA.

902. Eligibility Requirements

THDA loan assumption requirements are determined by the IRS mortgage revenue bond rules and bond issue operating statements in place at the time of original loan closing, as well as the provisions contained in the original note and deed of trust. In addition to eligibility rules, loans closed on or after January 1, 1991, are subject to Federal Recapture (Section 407).

Servicers are encouraged to check with THDA concerning assumption rules in regard to specific loans prior to processing assumption applications.

Unique requirements related to THDA loan assumptions fall into four categories. They are (1) the First-Time Homebuyer rule, (2) Household Income Limits, (3) Acquisition Cost Limits and (4) Owner Occupancy. Each of these categories is described in the following four sections. See Section 903 for an exception.

903. First-Time Homebuyer

A first-time homebuyer is an applicant who has not held a prohibited ownership interest in their primary residence at any time within the last 36 months prior to application (see exception in subsection C below).

A. Prohibited ownership interests include ownership by virtue of:

1. A fee simple interest;
2. A joint tenancy;
3. A tenancy in common;
4. A tenancy by the entirety;
5. The interest of a tenant-shareholder in a cooperative;
6. A life estate;
7. A land contract;
8. Ownership of a manufactured home and the land on which it is located, if the manufactured home was titled and assessed as real property;
9. Ownership created by inheritance, whether or not title is vested in the applicant;
10. Any of the above interests held in trust, whether or not created by the applicant, that would constitute an ownership interest if held directly by the applicant;
11. Ownership interest arising because, at any time within the last three years, the applicant's name was included on a deed to a residence which the applicant occupied as their principal residence;
12. Ownership interest arising because, at any time within the last three years, the applicant (i.e., **any** of the applicants) was married to a person who had one of the ownership interests noted above in a residence which the applicant occupied at any time as their principal residence; and
13. Any other interest that constitutes an ownership interest, as determined by THDA.

B. Ownership interests that are not prohibited include:

1. A lease with or without the option to buy;
2. Interests under a standard residential purchase contract;
3. A mere expectancy to inherit at a later date;
4. A remainder interest;
5. Ownership of a mobile home without ownership of the land on which it was located;

6. Ownership of a manufactured home and the land on which it is located if the manufactured home was not titled and assessed as real property;
7. Any of the applicable ownership interests if the property that secures the loan to be assumed is located in a designated targeted area; and
8. Any other interest that is not a prohibited ownership interest, as determined by THDA.

It is important to note that **all** applicants, including a non-qualifying spouse, must be a First-Time Homebuyer in order to apply to assume a loan that secures a property located in a non-targeted area.

- C. Exception: The First-Time Homebuyer rule does not apply to assumptions of loans that secure properties located within designated targeted areas (Section 913).

904. Household Income Limits

This limit is determined by county (Section 914) and is updated approximately annually. It generally includes all types of total earned and unearned income from all members of the household who will occupy the property that secures the loan to be assumed. It also includes all income of a spouse who is absent or separated, whether or not they will occupy the property. Some types of income are excluded (Section 912). If in doubt, contact THDA.

905. Acquisition Cost Limits

This limit is determined by county (Section 914) and is updated approximately annually.

A. Acquisition cost includes:

1. The contract sale price;
2. Cost of necessary, **non-optional** repairs that are **not** included in the sales contract, such as in the case of a purchase-rehab;
3. Cost for fixtures not included in the sales contract;
4. Cost of all materials and labor needed to complete or renovate the residence that are not included in the sales contract;
5. Any cash or in-kind contributions paid by or on behalf of the applicant to or for the seller;
6. Any cash or in-kind contributions paid by or on behalf of the seller to or for the applicant; and
7. The portion of settlement and financing costs that exceed usual and reasonable amounts.

B. Acquisition Cost does not include:

1. Cost for personal property not included in the sales contract; and
2. Usual and reasonable settlement costs.

906. Owner Occupancy

Some of the oldest THDA loans do not include requirements that the borrower occupy the subject property; however, the vast majority of THDA Deeds of Trust contain requirements for owner occupancy and/or household income limits. When processing an application for assumption of a THDA loan, the Servicer should check the Deed of Trust for such restrictions. If in doubt, contact THDA.

907. Assumption Process

For FHA loans originally closed prior to December 15, 1989, and VA loans originally closed prior to March 1, 1988, the selling borrower is not released from liability unless the assuming borrower's credit is approved by FHA or VA, as applicable. All assumption applications must be approved by FHA, VA, RHS or PMI, as applicable, and also by THDA. Uninsured conventional loans must only be approved by THDA.

Regardless of loan type, THDA reserves the right to judge the acceptability of the applicant's credit. THDA is not obligated to approve applicants with unacceptable credit or high ratios, even if approved by the insurer or guarantor. Situations that may result in THDA rejection include applicants that require a co-signer, a non-qualifying spouse, applicants that have been discharged from bankruptcy less than one year and applicants that are in an active Chapter 13.

- A. Submit an assumption file to THDA that contains the following. THDA forms noted below are available in Section 915.
1. Copy of application disclosures mandated by federal and Tennessee regulations;
 2. Copy of a signed *Federal Recapture Application Disclosure* if the original loan was closed on or after January 1, 1991, and the assumption may close prior to the loan's 9th anniversary, or if the original borrower sold the property by assumption prior to the 9th anniversary of the loan;
 3. A complete, signed FNMA 1003;
 4. A copy of the sales contract;
 5. A notarized *Assumption Affidavit* executed by the applicant(s);
 6. An *Assumption Acquisition Cost Worksheet* executed by the applicant(s) and seller(s);
 7. Copies of the applicant(s) signed and dated Federal Income Tax Returns, including W-2s for the most recent tax year;
 8. A complete, original credit package, including VOEs, VODs, and three years' VORs (two years in a targeted area);

9. FHA, VA, RHS or PMI approval, as applicable;
 10. If the subject loan is PMI insured, and the applicant is requesting PMI cancellation, include a complete, current, original appraisal (Section 408);
 11. If the property is located in a non-targeted area, the file must contain a minimum of three full years of rent verifications for each applicant. (A written Verification of Rent is highly preferred. May be verified by credit reporting agency if all information contained in a written verification is included and the bureau verifies the current information.)
- B. THDA will return an assumption commitment to the Servicer or a rejection to the applicant (and a copy to the Servicer).
- C. Within 30 days after closing, return to THDA:
1. An executed *THDA Closed Assumption Submission Sheet*.
 2. An executed *Agreement to Assume Loan in Conjunction with Purchase of Property* (all loan types);
 3. A copy of the recorded Warranty Deed;
 4. If the seller is not released, a copy of a seller-executed notice or statement that affirms that fact (one is available in Section 915); and
 5. Any other conditions stated on the THDA assumption commitment.

908. Loans Not Eligible for Assumption

- A. THDA-funded second mortgage (“Plus”) loans that are owned by THDA and were closed in conjunction with certain THDA FHA first mortgage loans between 1993 and 1997.
- B. Rural Inner City (RIC) loans. These loans fall within a range of THDA loan numbers from 8651-8000 to 8652-8699. Contact THDA to verify.
- C. Lower Income Families of Tennessee (LIFT) loans. Originated in 1992, these loans appear at random within THDA loan numbers ranging from 77603600 to 77603758, from 867-85000 to 867-85167, and from 8791-8800 to 8791-9167. Contact THDA to verify.
- D. In addition, there are a number of THDA loans that were originally closed in conjunction with Housing Opportunities Using State Encouragement (HOUSE) down payment assistance or renovation grants. HOUSE funding passed from THDA to cities, counties or local non-profit housing groups, which issued and secured the grants with second mortgages. HOUSE second mortgages may be forgivable over a period of years or may be due on sale. These loans do not fall within a narrow range of loan numbers. Although the applicable first mortgage is assumable, the HOUSE second mortgage may not be. Contact the city, county or local non-profit housing organization that administers the HOUSE grant to confirm.

909. Release of Liability

In regard to assumptions, THDA does not release borrowers from liability unless the assuming purchaser(s) is approved by the loan insurer/guarantor and THDA approves the applicant(s) based on program requirements. For information regarding other release of liability issues, see Section 403.

910. Household Income Inclusions

Calculate Household Income for all members of the household and include all full-time, part-time or temporary:

- A. Wages, whether salary or hourly;
- B. Overtime earnings, fees, tips and other compensation for personal services;
- C. Bonuses, commissions, vacation pay, shift differential and holiday pay;
- D. Social Security payments;
- E. Interest, dividends and other net income of any kind from real or personal Property; (any withdrawal of cash or assets from an investment will be included as income, except to the extent the withdrawal is reimbursement of cash or assets invested by a household member); also, the greater of actual earnings or imputed earnings from liquid assets in excess of \$5,000.00.
- F. Periodic, determinable allowances such as alimony, child support and other recurring payments or gifts from persons who will not reside in the Property;
- G. Periodic payments from annuities, insurance policies, pensions, retirement funds, royalties, sick pay, trust income, disability, death benefits or other type of periodic payments, including lump sum payments for the delayed start of a periodic payment (except Social Security and SSI);
- H. Armed Forces pay, including regular pay, special pay and allowances (excluding special pay for exposure to hostile fire). Armed forces pay for a head-of-household or spouse is always included, whether they are living in the household or not;
- I. Payments in lieu of earnings, such as unemployment and disability compensation, worker's compensation and severance pay (except lump sum payments as noted in "Exclusions From Household Income");
- J. Welfare assistance;
- K. Relocation payments made pursuant to Title II of the Uniform Relocation Assistance and Real Property Acquisition Act of 1970;
- L. Benefit and other non-earned income, including amounts paid directly to or on behalf of minors and full-time students;

- M. Any other source of income, except as noted in “Exclusions From Household Income”.
- N. Total annual net income from rental; and
- O. Total annual net income from operating a business or profession, including expenditures for business expansion or capital indebtedness, and withdrawal of cash or assets except to the extent the withdrawal is for reimbursement of cash or assets invested in the operation by a household member; an allowance for deduction of straight line depreciation of assets used in the operation is allowed.

911. Household Income Exclusions

When calculating Household Income, do not include:

- A. Earned income from employment of children and foster children under age 18; however, benefits and other non-earned income paid directly to or on behalf of minors and full-time students is counted as Household Income;
- B. Payments received for care of foster children or foster adults;
- C. Adoption assistance payments;
- D. Amounts that are specifically for, or in reimbursement of, the cost of medical expenses for a household member;
- E. Income of a live-in aide;
- F. Student financial assistance (educational grants, scholarships, educational entitlements, work-study programs and financial aid packages) paid directly to the student or to the educational institution;
- G. Earned income of full-time students 18 years old or older who can be claimed as a dependent by a household member; (earned income of a head-of-household or spouse who is a full-time student must be included in Household Income);
- H. Armed Forces special pay for exposure to hostile fire;
- I. Earned Income Tax Credits;
- J. Amounts received that are incident to a training program funded by HUD, including compensation that is a component of a state or local employment training program with clearly defined goals and objectives, the duration of which is for a limited period, determined in advance;
- K. Amounts received by a disabled person that are disregarded for a limited time for purposes of Supplemental Security Income (SSI) eligibility and benefits because they are set aside for use under a Plan to Attain Self-Sufficiency (PASS);
- L. Amounts received by a participant in a publicly assisted program which are specifically for or in reimbursement of out-of-pocket expenses (such as special equipment, special clothing, transportation, child care, etc.) and which are made solely to allow participation in a specific program, such as the Community Work Experience Program, or the Employment Search Program; this exemption also includes volunteer fire-fighters;

- M. Temporary, sporadic or nonrecurring income, including gifts;
- N. The value of Food Stamps;
- O. Lump sum additions to assets, such as inheritance, insurance payments (including health and accident insurance and worker's compensation payments), capital gains, settlement for personal or property loss, and deferred periodic payments received in a lump sum from Supplemental Security Income (SSI) and Social Security benefits;
- P. Repatriation payments made by foreign governments pursuant to claims filed under the laws of that government by persons who were persecuted during the Nazi era (initial determination or reexamination must have been made on or after April 13, 1993).

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912. Targeted Areas**A. Counties**

Bledsoe	Crockett	Grainger	Henderson	Lawrence	Meigs	Scott	Wayne
Campbell	DeKalb	Greene	Hickman	Lincoln	Monroe	Sequatchie	White
Cannon	Dyer	Grundy	Houston	Loudon	Morgan	Stewart	
Carroll	Fayette	Hancock	Jackson	Macon	Obion	Tipton	
Chester	Fentress	Hardeman	Jefferson	Madison	Overton	Trousdale	
Claiborne	Franklin	Hardin	Johnson	Marion	Pickett	Unicoi	
Clay	Gibson	Hawkins	Lake	Maury	Polk	Union	
Cocke	Giles	Haywood	Lauderdale	McNairy	Rhea	Van Buren	

B. Census Tracts

County	Census Tracts				
Anderson	020700				
Bradley	010400	010700			
Coffee	970900				
Davidson	011800	012400	012500	013600	013900
	014000	014200	014300	014400	014800
	016200				
Hamblen	100300				
Hamilton	000300	001200	001500	001600	001900
	002000				
Knox	000200	000400	000600	000700	001200
	001300	001400	002400	002800	
Montgomery	100400	000900			
Shelby	000200	000300	000400	000500	000800
	000900	001800	001900	002000	002100
	002200	002300	002400	002800	003700
	003800	004000	004100	004400	004500
	004600	004700	004800	004900	005000
	005100	005400	005700	005800	005900
	006000	006700	007810	008110	008400
	010300	010420	022022		
Washington	060700	060900			

913. Acquisition Cost and Income Limits by County

COUNTY	Income Limits by Household Size		Acquisition Cost Limits for Assumptions
	1-2	3+	
Anderson**	\$51,800	\$59,570	\$189,682
Bedford	\$49,600	\$57,040	\$189,682
Benton	\$49,600	\$57,040	\$189,682
Bledsoe*	\$59,520	\$69,440	\$231,833
Blount	\$51,800	\$59,570	\$189,682
Bradley**	\$49,600	\$57,040	\$189,682
Campbell*	\$59,520	\$69,440	\$231,833
Cannon*	\$59,520	\$69,440	\$327,250
Carroll*	\$59,520	\$69,440	\$231,833
Carter	\$49,600	\$57,040	\$189,682
Cheatham	\$60,700	\$69,805	\$267,750
Chester*	\$59,520	\$69,440	\$231,833
Claiborne*	\$59,520	\$69,440	\$231,833
Clay*	\$59,520	\$69,440	\$231,833
Cocke*	\$59,520	\$69,440	\$231,833
Coffee**	\$49,600	\$57,040	\$189,682
Crockett*	\$59,520	\$69,440	\$231,833
Cumberland	\$49,600	\$57,040	\$189,682
Davidson**	\$60,700	\$69,805	\$267,750
Decatur	\$49,600	\$57,040	\$189,682
DeKalb*	\$59,520	\$69,440	\$231,833
Dickson	\$60,700	\$69,805	\$267,750
Dyer*	\$59,520	\$69,440	\$231,833
Fayette*	\$64,920	\$75,740	\$231,833
Fentress*	\$59,520	\$69,440	\$231,833
Franklin*	\$59,520	\$69,440	\$231,833
Gibson*	\$59,520	\$69,440	\$231,833
Giles*	\$59,520	\$69,440	\$231,833
Grainger*	\$59,520	\$69,440	\$231,833
Greene*	\$59,520	\$69,440	\$231,833
Grundy*	\$59,520	\$69,440	\$231,833
Hamblen**	\$49,600	\$57,040	\$189,682
Hamilton**	\$50,900	\$58,535	\$189,682
Hancock*	\$59,520	\$69,440	\$231,833
Hardeman*	\$59,520	\$69,440	\$231,833
Hardin*	\$59,520	\$69,440	\$231,833
Hawkins*	\$59,520	\$69,440	\$231,833
Haywood*	\$59,520	\$69,440	\$231,833
Henderson*	\$59,520	\$69,440	\$231,833
Henry	\$49,600	\$57,040	\$189,682
Hickman*	\$59,520	\$69,440	\$327,250
Houston*	\$59,520	\$69,440	\$231,833
Humphreys	\$49,600	\$57,040	\$189,682
Jackson*	\$59,520	\$69,440	\$231,833
Jefferson*	\$59,520	\$69,440	\$231,833
Johnson*	\$59,520	\$69,440	\$231,833
Knox**	\$51,800	\$59,570	\$189,682
Lake*	\$59,520	\$69,440	\$231,833

COUNTY	Income Limits by Household Size		Acquisition Cost Limits for Assumptions
	1-2	3+	
Lauderdale*	\$59,520	\$69,440	\$231,833
Lawrence*	\$59,520	\$69,440	\$231,833
Lewis	\$49,600	\$57,040	\$189,682
Lincoln*	\$59,520	\$69,440	\$231,833
Loudon*	\$62,160	\$72,520	\$231,833
Macon*	\$59,520	\$69,440	\$327,250
Madison*	\$59,520	\$69,440	\$231,833
Marion*	\$61,080	\$71,260	\$231,833
Marshall	\$49,700	\$57,155	\$189,682
Maury*	\$62,760	\$73,220	\$231,833
McMinn	\$49,600	\$57,040	\$189,682
McNairy*	\$59,520	\$69,440	\$231,833
Meigs*	\$59,520	\$69,440	\$231,833
Monroe*	\$59,520	\$69,440	\$231,833
Montgomery**	\$49,600	\$57,040	\$189,682
Moore	\$49,600	\$57,040	\$189,682
Morgan*	\$59,520	\$69,440	\$231,833
Obion*	\$59,520	\$69,440	\$231,833
Overton*	\$59,520	\$69,440	\$231,833
Perry	\$49,600	\$57,040	\$189,682
Pickett*	\$59,520	\$69,440	\$231,833
Polk*	\$59,520	\$69,440	\$231,833
Putnam	\$49,600	\$57,040	\$189,682
Rhea*	\$59,520	\$69,440	\$231,833
Roane	\$49,600	\$57,040	\$189,682
Robertson	\$60,700	\$69,805	\$267,750
Rutherford	\$60,700	\$69,805	\$267,750
Scott*	\$59,520	\$69,440	\$231,833
Sequatchie*	\$59,520	\$69,440	\$231,833
Sevier	\$51,800	\$59,570	\$189,682
Shelby**	\$54,100	\$62,215	\$189,682
Smith	\$49,600	\$57,040	\$267,750
Stewart*	\$59,520	\$69,440	\$231,833
Sullivan	\$49,600	\$57,040	\$189,682
Sumner	\$60,700	\$69,805	\$267,750
Tipton*	\$64,920	\$75,740	\$231,833
Trousdale*	\$59,520	\$69,440	\$327,250
Unicoi*	\$59,520	\$69,440	\$231,833
Union*	\$62,160	\$72,520	\$231,833
Van Buren*	\$59,520	\$69,440	\$231,833
Warren	\$49,600	\$57,040	\$189,682
Washington**	\$49,600	\$57,040	\$189,682
Wayne*	\$59,520	\$69,440	\$231,833
Weakley	\$49,600	\$57,040	\$189,682
White*	\$59,520	\$69,440	\$231,833
Williamson	\$60,700	\$69,805	\$267,750
Wilson	\$60,700	\$69,805	\$267,750

* Targeted County ** Some Census Tracts Targeted

Median incomes data derived from HUD FY 2004 Median Family Incomes for States, Metropolitan and Non-metropolitan Portions of States.

Acquisition cost data derived from Safe Harbor limits established by IRS Rev. Proc. 2004-18.

914. THDA Assumption Forms

ASSUMPTION APPLICATION CHECKLIST - Form developed to assist the Servicer in processing and submitting complete assumption applications to THDA. Use as a cover sheet when submitting assumption application for THDA approval. Organize in the order specified.

ASSUMPTION APPLICATION AFFIDAVIT - Establishes the facts regarding THDA and IRS mortgage revenue bond requirements. In Sections 3 and 4, enter the limits found in Section 915 A or B. Must be signed by all applicants and notarized. Must be included in application package when submitted for THDA approval.

FEDERAL RECAPTURE APPLICATION DISCLOSURE - Although IRS regulations only requires that new borrowers receive a final recapture disclosure within 90 days after loan closing, THDA insists that applicants be aware of this provision much sooner. This disclosure places applicants on notice that federal recapture provisions apply to the loan they are applying to assume. Obtain applicants' signatures. Include a copy of the signed disclosure in the application package when submitted for THDA approval. (THDA will provide new borrowers with a customized final recapture disclosure after the closed package is received from the Servicer.)

ASSUMPTION ACQUISITION COST WORKSHEET - Establishes the exact acquisition cost for the assumption transaction. Must be signed by all buyers and sellers and included in application package when submitted for THDA approval.

LIABILITY ACKNOWLEDGEMENT - For use in assumption transactions where the buyer is not released from liability. May either be signed during application processing or at closing. Include in closed assumption package.

AGREEMENT TO ASSUME LOAN IN CONJUNCTION WITH PURCHASE OF PROPERTY - Preferred assumption agreement for THDA loan assumptions. All buyers and sellers sign and all signatures must be notarized. Include in final closed loan submission.

THDA CLOSED ASSUMPTION SUBMISSION CHECKLIST - Designed to aid Servicer in submitting complete closed assumption files to THDA. Use as a cover sheet when submitting the closed assumption package. Organize in the order specified.

**TENNESSEE HOUSING DEVELOPMENT AGENCY
ASSUMPTION APPLICATION CHECKLIST**

Applicant name(s) _____ Property Address _____

___ With release Property in Targeted Area? ___ Yes ___ No Income Limit \$ _____

___ Without release Acquisition Cost Limit \$ _____

Loan Type: _____ THDA loan number: _____ Servicer loan # _____

___ *Original signed Loan Applications, scratch and final typed

___ Copy, Contract for Sale

___ Copy, Good Faith Estimate and other mandated disclosures

___ Copy, photo I.D. and Social Security card

___ Original executed and notarized Application Affidavit

___ Original executed Acquisition Cost Worksheet

___ *Original, credit Report (qualifying assumption)

___ *Original, VOE's, all employed household members

___ Copies, current pay stubs with YTD, all employed household members

___ Copies, award or eligibility statements for retirement, disability, public assistance, etc, all household members

___ *Original, VOD, all accounts, all applicants (qualifying assumption)

___ Copy, two months bank and investment statements, all accounts (qualifying assumption)

___ Copy, new URAR (appraisal), if guaranteed by RD, or if PMI loan and applicant is requesting cancellation

___ Copies, last three years Federal income tax returns. If property is located in a targeted area, only the latest (one) tax return for each applicant is required. Either an original or copied signature(s) must appear in the signature block.

___ *Original FHA MCAW, VA Loan Analysis, RHS or PMI approval, as applicable (qualifying assumption)

___ *Original Rent Verification, all applicants. Minimum 36 month period if **not** in a targeted area. Minimum two years if property is located in a targeted area.

___ Copy, blanket credit authorization, if applicable

*A copy is acceptable if original is required to be submitted to FHA, VA, RHS or PMI

Loans Originally Closed on or After January 1, 1991:

___ Original, signed Recapture Disclosure

Servicer Name _____ Submitted by _____

Submitter's Phone _____ Submitter's Fax _____

E-Mail Address _____ Date Submitted _____

May, 2003

ASSUMPTION APPLICATION AFFIDAVIT

I/we, the undersigned, hereby affirm as follows for the purpose of inducing the Tennessee Housing Development Agency ("THDA") to approve the assumption of a loan to facilitate my/our purchase of the land and house located at _____, _____ County, Tennessee ("the residence").

1. I am/we are the Applicant/Co-Applicant for the assumption of the THDA loan to which this Affidavit relates.
2. I/we have responded with a check or "X" to at least one of the following statements:
 - _____ During the three (3) years before the date of this Affidavit, I/we have not had any ownership interest in any residence which I/we occupied as my/our primary residence, including a mobile home permanently attached to a foundation on property that I/we owned.
 - _____ The residence being purchased is located in a Targeted Area as defined in the most recent THDA Guide for Servicers, as amended.
3. The **Household Income Limit** (for my/our household size) pertaining to assumptions of THDA loans for the county in which the property is located is \$_____ per year. My/our total household income does not exceed that amount.
4. The **Acquisition Cost Limit** pertaining to assumptions of THDA loans for the county in which the property is located is \$_____. The total acquisition cost for this transaction, as defined in the THDA Servicing Guide, does not exceed that amount.
5. I/we intend to occupy the residence as my/our primary residence within 60 days of the assumption of the THDA loan to which this affidavit relates.
6. I/we acknowledge that THDA is relying upon the information and certifications herein, and in the other documentation and certifications provided by me/us to determine if I/we qualify to assume the applicable THDA loan.
7. The names and ages of all persons who will occupy the residence are: _____
_____.

I/we do hereby declare, swear and affirm, under penalty of perjury, that the statements in this Affidavit are true and correct and that all information, documentation and/or certifications provided by me/us to induce THDA to approve this assumption, are accurate, true, correct and complete in all material respects.

Applicant's signature

Date

Co-Applicant's signature

Date

STATE OF TENNESSEE
COUNTY OF _____

Before me, _____, a Notary Public of the state and county mentioned, personally appeared _____ and _____, the affiant(s), with whom I am personally acquainted (or proved to me on the basis of satisfactory evidence), and who, upon oath, acknowledged that (s)he/they executed the foregoing instrument for the purposes therein contained.

Witness my hand and seal, at office, this _____ day of _____, 20____.

Notary Public

My commission expires _____

HO-450A (Rev 3-99) THDA

Tennessee Housing Development Agency (THDA)
Notice to Applicants

FEDERAL RECAPTURE TAX REQUIREMENTS

IMPORTANT INFORMATION

APPLICATION DISCLOSURE

PLEASE READ

(to be provided to the Applicant at time of application)

The interest rate on your THDA loan is a below market rate due to a subsidy produced by THDA's issuance of tax-exempt bonds. As a result of a law passed by Congress in 1988, you may, under certain circumstances, be subject to a recapture tax designed to recover some amount of the subsidy reflected in your below market interest rate. This notice contains a brief description of this recapture tax and how it may affect you. THDA recommends, however, that you consult a tax advisor if you have questions about the recapture tax and that you consult a tax advisor at the time you sell or otherwise dispose of your home financed with a THDA loan.

There is no recapture tax if you own your home for more than nine years from the date you close your THDA loan. If you do sell or otherwise dispose of your home within nine years from the date you close your THDA loan, you are subject to the recapture tax and must determine whether you need to pay recapture tax to the federal government.

Several factors determine whether you must pay any recapture tax. These factors include your original loan amount, the length of time you own your home financed with the THDA loan, your income and family size at the time of sale, and the gain that you realize on the sale of your home. Since your income and family size may change during the time you own your home and since gain cannot be determined until an actual sale occurs, there is no way to predict whether you will have to pay recapture tax. Regardless of these factors, any recapture tax you may have to pay is limited to the lesser of (i) your original THDA loan amount times 6.25% or (ii) half of the actual gain from the sale or other disposition of your home financed with the THDA loan.

If you sell your home to a buyer eligible to assume the THDA loan, you must still determine whether you owe recapture tax. The buyer is also subject to the recapture tax for nine years beginning on the date your sale to the buyer is closed.

The recapture tax applies to any disposition of your home financed with the THDA loan, whether by sale, exchange, involuntary conversion, or any other transfer of any interest. If you refinance your THDA loan (without selling your home), no recapture tax is due at the time of refinancing, however, you may still owe recapture tax if you sell your house after the refinancing and the sale occurs within nine years from the date you closed your THDA loan.

If your home is damaged or destroyed by fire, storm, or other casualty, you may not owe recapture tax, if within two years, you rebuild your principle residence on the same site. Generally, you may not owe recapture tax if you transfer your home to a spouse, or a former spouse as a result of a divorce, or if your home is transferred as a result of your death.

The undersigned acknowledges that I/we have read and understand the above disclosure.

Applicant: _____

Date: _____

Applicant: _____

Date: _____

HO-0448 (09/99)

**TENNESSEE HOUSING DEVELOPMENT AGENCY
ASSUMPTION ACQUISITION COST WORKSHEET**

Servicer's loan number: _____

THDA loan number: _____

Seller(s) Name(s): _____

Buyer's Name(s): _____

Property Address: _____

Contract sale price..... \$ _____

In addition to the contract sales price, cash or in-kind amount(s) to be paid by any person to anyone or any entity on behalf of the **Seller(s)**, or to anyone or any entity on behalf of the Buyer(s) (excluding settlement or financing fees): _____

In addition to the contract sales price, cost of fixtures, or cost of necessary repairs, or the cost of materials and labor needed to complete or renovate the residence in order to make it habitable:..... _____

Capitalized value of ground rent (if applicable), and amount of settlement or financing costs that exceeds usual and reasonable amounts:..... _____

TOTAL ACQUISITION COST \$ _____

I certify that the information supplied above is true to the best of my knowledge.

Buyer Signature

Date

Buyer Signature

Date

Seller Signature

Date

Seller Signature

Date

September, 2001

Servicer's loan number: _____

THDA loan number: _____

LIABILITY ACKNOWLEDGEMENT

I/we the undersigned acknowledge that I am/we are the person(s) who executed or assumed a certain Note and Deed of Trust dated _____ and recorded in Book _____, Page _____, in the Registers Office of _____ County, Tennessee, which debt is secured by property located at _____, _____, Tennessee; and

That I/we have, by assumption, sold the property that secures the debt referenced above; and

I/we realize and acknowledge that I/we are not released from liability for the debt referenced above.

Seller Signature

Date

Seller Signature

Date

September, 2001

Servicer's loan number: _____

THDA loan number: _____

AGREEMENT TO ASSUME LOAN IN CONJUNCTION WITH PURCHASE OF PROPERTY

With this Assumption Agreement, dated _____, 20____, between the Tennessee Housing Development Agency (THDA), with _____ acting as Servicing Agent, and _____ (Purchasers), the parties agree to the following:

WHEREAS, THDA made funds available to _____ (Borrowers) in the amount of _____ and _____/100 Dollars US (\$____), which was used by Borrowers to purchase certain property known as [street address] _____, [city] _____, [zip code] _____, located in _____ County, Tennessee (the Property); and

WHEREAS, the debt incurred by Borrowers payable to THDA is evidenced by a certain Note dated _____, in the original principal amount of \$_____ ("the Note") and secured by a certain Deed of Trust dated _____, of record in _____, in the Registers Office for _____ County, Tennessee (the Deed of Trust); and

WHEREAS, the Servicing Agent services certain THDA loans, including the debt evidenced by the Note and Deed of Trust; and

WHEREAS, Purchasers wish to assume and agree to pay the amounts due under the Note and Deed of Trust (the Indebtedness) and to perform all obligations under the Note and Deed of Trust; and

WHEREAS, THDA is willing to consent to the sale of the Property and to the assumption of the Indebtedness by Purchasers, subject to the conditions set forth herein;

NOW, THEREFORE, the parties hereto agree as follows:

1. THDA hereby consents to the sale of the Property by the Borrowers to the Purchasers, subject to this Agreement.
2. Purchasers do hereby assume and agree to be bound by the terms of the Note and Deed of Trust, to pay the Indebtedness according to the terms stated therein, except as modified below, and to perform all of the terms, covenants and conditions of the Note and Deed of Trust.
3. As of the date of this Agreement, the total principal amount outstanding under the Note is _____ and _____/100 Dollars (\$____) and the Note interest rate is _____ percent per annum.
4. Purchasers shall make monthly payments to the Servicing Agent beginning the first day of _____, 20____, in the total amount of _____ and _____/100 Dollars (\$____) per month, which includes _____ and _____/100 Dollars (\$____) per month to be applied first to interest and then to principal until the Indebtedness is paid in full. The remaining sum of _____ and _____/100 Dollars (\$____) per month being one-twelfth of the amount estimated to be sufficient to pay taxes, insurance and similar required amounts regarding the Property when due. This amount, which may be revised from time to time, shall be placed in escrow by the Servicing Agent to pay said amounts as they come due.

5. Purchasers hereby covenant and warrant for the benefit of THDA as follows:

- a. Purchasers have not omitted or misrepresented a fact that is material to THDA program requirements or Section 143 of the IRS Code with respect to the Purchasers' assumption of the Indebtedness.
- b. Purchasers acknowledge that (i) the Note and Deed of Trust are in full force and effect; (ii) there are presently no defaults under the terms of the Note and Deed of Trust; (iii) there exist no charges, liens, claims or offsets against the Servicing Agent or THDA; and (iv) there are not and there have not been any events, acts or omissions which have occurred or which, with the passage of time, would constitute a default under the Note or Deed of Trust.

TENNESSEE HOUSING DEVELOPMENT AGENCY (THDA)

Notary Public

My Commission Expires _____

(Agreement to Assume Loan in Conjunction with Purchase of Property, page 3 of 3)

Selling Borrower(s) join in this instrument to acknowledge that all statements contained in this instrument are true and correct to the best of their knowledge and that they ____ are ____ are not released from liability under the Note and Deed of Trust.

Selling Borrower

Selling Borrower

State of _____)

County of _____)

Before me, _____, a Notary Public of the state and county named, personally appeared _____ and _____ and _____, the within named bargainers, with whom I am personally acquainted (or proved to me on the basis of satisfactory evidence), and who, upon oath, acknowledged that (s)he/they executed the foregoing instrument for the purposes therein contained.

Witness my hand and seal, at office, this _____ day of _____, 20_____.

Notary Public

My Commission Expires _____

September, 2001

THDA CLOSED ASSUMPTION SUBMISSION CHECKLIST

Servicer's Loan Number: _____ THDA Loan Number: _____
Name of Servicer: _____ Date Submitted: _____
Contact Person: _____ Telephone Number: _____
Name of Seller(s): _____
Seller's New Address: _____
Name of Assumptor: _____ Social Security Number: _____
Name of Co-Assumptor: _____ Social Security Number: _____
Property Address: _____
Assumption Settlement Date: _____

FOLLOW-UP INFORMATION SUBMITTED

_____ Final, executed Loan Application, if modified subsequent to application submission
_____ Copy, Contract for Sale, if modified subsequent to application submission
_____ Original Assumption Settlement Statement
_____ Copy, Recorded Warranty Deed
_____ Original "THDA Agreement to Assume Loan in Conjunction With Purchase of Property"
_____ Original "Agreement to Assume Liability" (if applicable)
_____ Original statement or agreement executed by seller acknowledging seller is not released from liability, if applicable
_____ Documents to satisfy other conditions listed on the Assumption Commitment

July, 2004

CHAPTER X – PENALTIES

1000. General Information

THDA may charge penalties and/or fees for failure to comply with requirements contained in this Guide. Penalties will be monitored and assessed separately and are in addition to other remedies that may be available. Servicers will receive written notification of any fee and/or penalty assessments. THDA reserves the right to revise and change the methods of calculating fees and penalties at any time at our sole discretion. THDA reserves the right to invoke additional remedies, including, but not limited to, a requirement that Servicer personnel attend training sessions, indemnify THDA for a loss, require the Servicer to purchase a loan or an acquired property, imposition of a penalty fee, disqualification as a Servicer, suspension or termination of servicing. Waiver of an individual fee or penalty by THDA has no relation to any other fee or penalty that may have been imposed in the past or will be imposed in the future.

A penalty fee may relate to the action the Servicer took or failed to take, or may be imposed to emphasize the importance of a particular aspect of the Servicer's performance. A penalty fee may relate to the impact that the Servicer's actions cause to THDA's cash flow.

THDA may pursue a variety of remedies either to correct a specific problem or to improve the Servicer's overall performance, in lieu of exercising the right to terminate the Servicing Agreement. Penalty fees may be imposed in any of the following situations, as well as in others that may be identified from time to time, when THDA feels that the imposition of a penalty will give the Servicer a financial incentive to correct its servicing problems and improve the quality of the Servicer's performance.

1001. Reporting Penalties

Each type of reporting offense is judged individually and may result in noncompliance fees or penalties without regard to other offenses or reporting periods, except as noted otherwise herein.

- A. Failure to report mandated data elements, such as the Interest Paid to Date or other fields as listed in Appendix A: Electronic Reporting - File Layout for Servicer Transactions.
- B. Failure to provide requested information to THDA that is not a part of the regular reporting requirements, or providing late or unusable information.
- C. Failure to transmit processable loan-level electronic data files by 10:00 a.m. Central Time daily (business days).

Reporting offenses may result in the following penalty fees:

- A. Up to \$250 for the first instance of late or inaccurate reporting;
- B. Up to \$500 for the second instance of late or inaccurate reporting if it occurs within one year of the first instance;
- C. Up to \$750 for subsequent instances of late or inaccurate reporting if any instance occurs within one year of the most recent prior instance.

1002. Remittance Penalties

The amount indicated on the electronic reporting Confirmation and Wiring Report must be wired to the THDA Trustee by 2:00 p.m. Central Time each day. If a Servicer does not remit funds within the stated time frame, in addition to exercising other available remedies, THDA may charge the following penalty fee:

- A. For the first instance of delayed remitting, a fee that is determined by multiplying the calculated late remittance by the number of days the remittance is late and then multiplying that product by the sum of the prime interest rate published in the *Wall Street Journal's* prime rate index, plus 3%. The minimum amount of such penalty shall be \$250.
- B. For the second instance of late remitting, if it occurs within one year of the first instance: a fee that is determined by multiplying the calculated late remittance by the number of days the remittance is late and then multiplying that product by the sum of the prime interest rate published in the *Wall Street Journal* prime rate index, plus 3%. The minimum amount of such penalty shall be \$500.
- C. For subsequent instances of late remitting, if they occur within one year of the most recent instance: a fee that is determined by multiplying the calculated late remittance by the number of days the remittance is late and then multiplying that product by the sum of the prime interest rate published in the *Wall Street Journal* prime rate index, plus 3%. The minimum amount of such penalty shall be \$1,000

1003. Default Penalties

Each type of offense is judged individually and may result in noncompliance fees or penalties without regard to other offenses or reporting periods, except as noted otherwise herein.

- A. Delayed remittance of claim proceeds: Servicers must remit foreclosure claim settlement funds to THDA immediately upon receipt. If the Servicer fails to remit the claim proceeds within 10 business days, a daily interest charge may be imposed for the total number of days the funds were in the hands of the Servicer, beginning with the day the funds were received by the Servicer until the funds are received at THDA. This interest charge will be calculated at the prime interest rate that was in effect on the first business day of the month in which the remittance was due, published in the *Wall Street Journal* prime rate index, plus 3%.
- B. Disallowed foreclosure costs or curtailed interest: On occasion, the mortgage insurer or guarantor may disallow a specific foreclosure expense from the claim or may curtail the amount of interest paid as part of the claim settlement. If that happens because the Servicer did not follow required procedures, the Servicer will be required to reimburse THDA for the curtailed interest, or the agency will offset the Servicer's expense reimbursement by the amount which was disallowed or curtailed by the insurer/guarantor. (See also Section 503.)
- C. Excessive amount of delinquent installments: Servicers' delinquencies are evaluated to determine their impact on THDA's cash flow. Comparisons may be made between the Servicer's THDA and non-THDA delinquencies within a servicing organization, trends in a Servicer's THDA delinquency rates as compared to Tennessee delinquency rates reported by the Mortgage Bankers Association of America, THDA delinquency rates and trends of one Servicer compared to THDA delinquency rates of other or all THDA Servicers, or other comparative methods. If a Servicer's delinquency ratio is judged too high by THDA, a goal for improvement and a time frame for accomplishing the goal will be developed. If the goal is not met within the established time frame, a penalty fee may be assessed on that portion of

the goal that is not met. Generally, the fee will be calculated at the prime interest rate that was in effect on the first business day of the month in question, as published in the Wall Street Journal prime rate index, plus 3%. A one-month fee may be imposed based on the outstanding principal balance of the loans that do not fall within the goal, times one-twelfth of the annual fee calculation noted above. A monthly penalty fee may continue to be charged until the goal is met or until it becomes evident that more serious disciplinary actions may be considered, including a higher penalty fee.

- D. Delays in liquidation process: Periodically, a Servicer's handling of seriously delinquent loans are reviewed to determine that specific actions, such a referral for foreclosure, foreclosure sale, conveyance, claim filing, etc. are being taken in a timely manner. If a review discloses that the Servicer has an unsatisfactory number of delays, a penalty fee that relates to the costs incurred as a result of those delays may be imposed. The penalty fee imposed will be based on the outstanding principal balance(s) of the loan(s), the length of the delay(s), and any additional costs that are directly attributable to the delay(s).
- E. Late submission of delinquency, bankruptcy, rental status and other reports: THDA periodically provides Servicers with delinquency, bankruptcy and rental status monitoring reports. Typically, these reports list loans for which certain processes have not taken place, such as loans foreclosed for more than a certain number of months for which no claim has been received, or loans in Chapter 13 bankruptcy for which no payment has been posted for three or more months. The Servicer must update and return those reports in time to reach THDA by the 10th business day of the following month. Servicers that fail to submit their reports by the deadline or fail to report using the correct data and formats may be subject to the following penalty fees:
1. Up to \$250 for the first instance of late or inaccurate reporting;
 2. Up to \$500 for the second instance of late or inaccurate reporting if it occurs within one year of the first instance;
 3. Up to \$750 for subsequent instances of late or inaccurate reporting if any instance occurs within one year of the most recent prior instance.
- F. Failure to provide critical status changes: THDA is required to produce a variety of loan portfolio financial statements and reports to internal and external entities. Certain loan statuses greatly impact the accuracy of these reports. Examples of critical statuses: bankruptcy filed, bankruptcy dismissed/discharged, loan approved for foreclosure, scheduled foreclosure sale date, foreclosure sale conducted, loan reinstated, etc.

It is critical that Servicers provide THDA with loan status changes as they occur. A pattern of late or omitted status changes will be viewed in the same manner as indicated in Section 1003 E.

- G. Late filing of request for reimbursement: Servicers must submit their THDA *Statement of Foreclosure Expenses* Form S-611 to request reimbursement of their advances within the following time frames:
- within 30 days after completion of a loss mitigation alternative, conveyance to the insurer or guarantor, acquisition of a property by a third party at foreclosure sale or disposition of an acquired property.

- within 30 days after RHS pays a claim (partial expense requests), or after the sale of VA, RHS or conventional REO (final expense requests).
- Within 15 days after filing FHA Part B expense forms.

When requests for reimbursement are received late, as noted above, the request may be denied or a late submission fee may be assessed. Late submission charges will be determined individually by taking into consideration the severity of the filing delay and the frequency with which the Servicer files late requests for reimbursement.

1004. Other Penalties

- A. Late submission of annual renewal or reports: Each year, THDA sends a request for certain information to each Servicer in order to renew their authority to service THDA loans. Servicers must return their annual renewal to THDA within 60 days of their fiscal year-end. Failure to comply may result in a penalty fee of \$100 per month until such documentation is received at THDA. If not received within 120 days of the Servicer's fiscal year-end, THDA may decide that it is more appropriate to suspend or terminate the Servicer's privileges rather than to impose this fee. THDA may also require some Servicers to provide special reports or information about their operations, such as financial data. If the requested reports or information is not received at THDA when due, a \$100 per month penalty fee may be assessed, or the Servicer's servicing privileges may be suspended or terminated.
- B. Unauthorized transfer of servicing: Servicers must obtain THDA's approval prior to any transfer of THDA servicing, including those that result from changes in corporate ownership. If a Servicer fails to obtain THDA approval at least 30 days prior to the effective date of the transfer of servicing, a penalty fee may be imposed, as well as any other available remedy. The fee may vary, depending on the circumstances and may be as much as 1% of the unpaid principal balances of the THDA loans that are being transferred.
- C. Failure to maintain necessary loan documents: See Section 215. THDA may impose charges for time and reproduction when Servicers request copies of notes and deeds of trust from THDA files for the purpose of filing bankruptcy claims or to initiate foreclosures due to Servicers not maintaining necessary copies in their servicing files.
- D. Failure to return original documents: In instances where THDA must provide the original note and deed of trust to the Servicer, and when subsequent events necessitate the return of the original documents to THDA, the Servicer must accomplish delivery by a trackable method, such as certified or registered mail or overnight courier. Failure to return original documents to THDA may result in the Servicer purchasing the loan from THDA.
- E. Failure to record release of lien: Failure to record a release of lien within 30 days of payment in full may result in a \$100 penalty per loan. In addition, any penalty imposed on THDA under Tennessee law (TCA 66-25-102) that is the result of the Servicer's failure to record a release of lien within the specified time shall be born by the Servicer. (Section 415)
- F. Failure to notify THDA of SCRA changes: When a borrower is approved for relief under the Servicemembers Civil Relief Act (Section 416), or when the borrower's period of relief ends, the Servicer must coordinate interest rate and principal and interest payment changes with THDA prior to the first affected payment. Failure to do so may result in a \$100 per month penalty per affected loan.

APPENDIX A

Electronic Reporting

8/21/2002

OVERVIEW

Welcome to THDA's electronic reporting system. This system will simplify your THDA reporting and will significantly increase efficiency.

For many years, at the end of each month, servicers received a separate hard copy bill from THDA for loans contained in each THDA bond issue. Servicers were required to complete these extensive reports and provide them to THDA with an exception tape by the fifth working day of the following month. In addition, servicers were required to periodically wire funds to the THDA Trustee and fax a breakdown of funds by bond issue to THDA and to the Trustee.

Electronic reporting eliminates paper reporting. You will no longer be required to keep up with the appropriate bond issue for individual loans. All THDA loans may be maintained on your database in one group, if you wish. In addition, the following routines will be eliminated: no special month-end routines, no monthly bills from THDA, no preparation and remittance of monthly reports, no preparation and mailing of exception tapes and no faxes to THDA or to the Trustee.

Each business day, you will produce a data file that contains all of the transactions you processed on the previous working day, and by 10:00 a.m. Central Time, you will upload the file via the Internet. (See illustrations below.) You will follow the same routine **each business day**, even if you have no transactions, in which case your data file will only contain a header and trailer record. Within moments, two reports will be available for you to print. The first is a Transaction Error Report. The second is a Remittance Confirmation and Wire Sheet.

Transaction Error Report: The THDA electronic reporting program will evaluate each transaction in your data file and will produce detailed results of any errors detected. For each error, the report will indicate whether or not the money is included in the total to be wired to the Trustee. Error examples and correction instructions are noted below.

Remittance Confirmation and Wire Sheet: This will contain the exact amount of money that you will wire to the THDA Trustee by 2:00 p.m. Central Time on the same day. **Only remit the amount indicated on the wire sheet.** This report will also contain specific wiring instructions. Be sure your wire is sent exactly as indicated.

Fatal Error:

Incorrect loan ID. This includes THDA loan IDs that are unrecognizable to the THDA program as well as recognizable IDs that do not match the correct servicer ID. **This is a fatal error.** Money associated with this transaction **will not** be included in the total dollars to be wired to the Trustee. When you reverse this transaction, it will appear as an error again on the following day's report, which is unavoidable. It is recommended that you call your THDA representative to discuss fatal errors as soon as they appear on your report.

Non-Fatal Error Examples:

Incorrect loan amount,
Incorrect principal and interest breakdown, (the program includes a \$.10 tolerance.)
Incorrect interest rate,
Incorrect servicer fee.

Other non-fatal errors are possible. Money associated with these types of errors **will** be included in the total wire to the Trustee.

Error Correction:

- A. Reverse the transaction **on the same day** it appears on the error report.
- B. Determine the cause.
- C. Make the correction in your database.
- D. Reapply the transaction **on the same day**. The reversal and reapplication will appear on the following day's report, which will zero each other out. (In the remote chance that the loan does not belong to THDA, step "D" will be omitted.)

Feel free to call your THDA representative any time (Section 107). We are here to help you make this a smooth process.

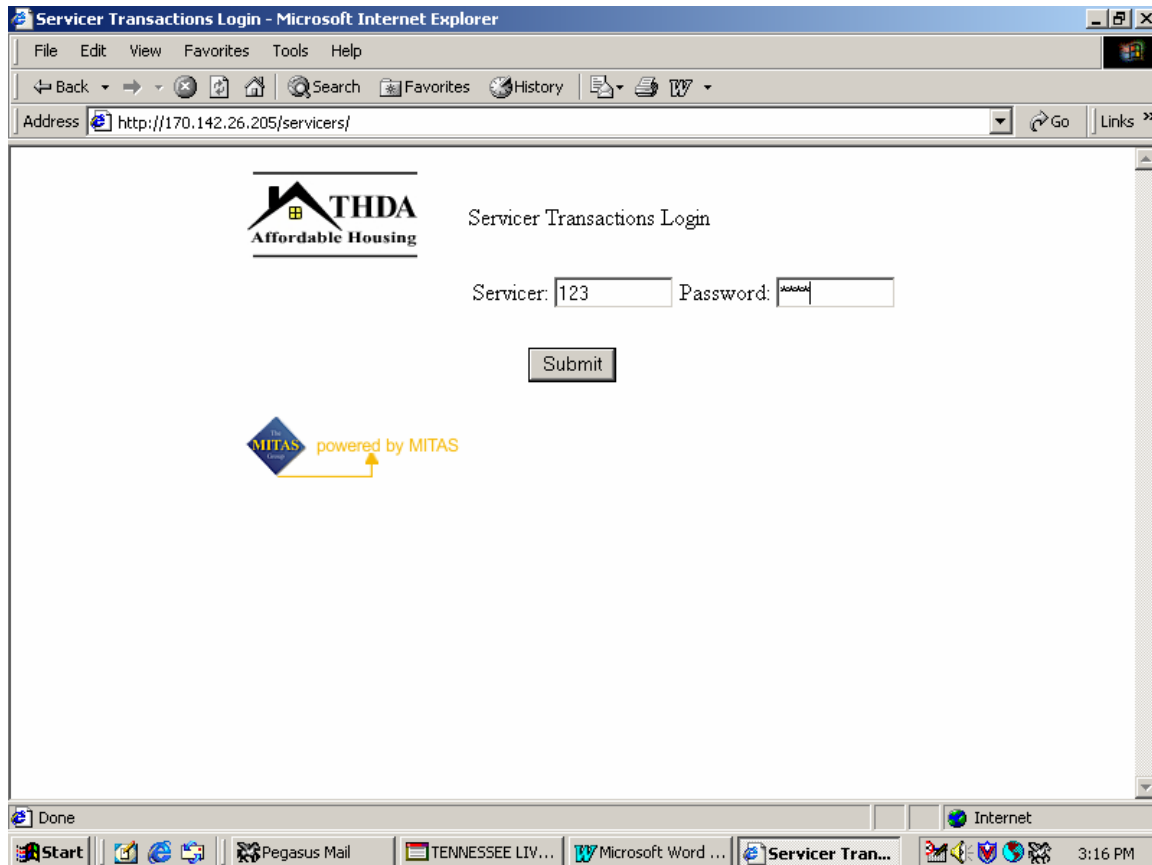
Trustee Notification: THDA software will process your daily data file, break the dollars down into bond issue categories and email a report to the Trustee. The Trustee will be on notice that you will be wiring a specific amount of money that day, and will be aware of where to deposit the funds. Your only responsibility in this portion of the process is to wire the exact amount indicated on the Remittance Confirmation and Wire Sheet to the Trustee in a timely manner.

Holidays: THDA may be closed for certain holidays when your office may be open, or THDA may be closed due to a disaster or emergency. We will make every effort to notify you of scheduled closings in advance. In such cases, save your new data file and transmit it on the next business day THDA is open. In that case, you will likely have two data files to transmit.

Step One: Log on to THDA Web Site

Log on to our secure web site using your servicer number and unique password received from THDA. The address of the web site is <http://170.143.36.102/servicers/>

On this screen you will enter your THDA Servicer number and the Password assigned by THDA and click “Submit”.



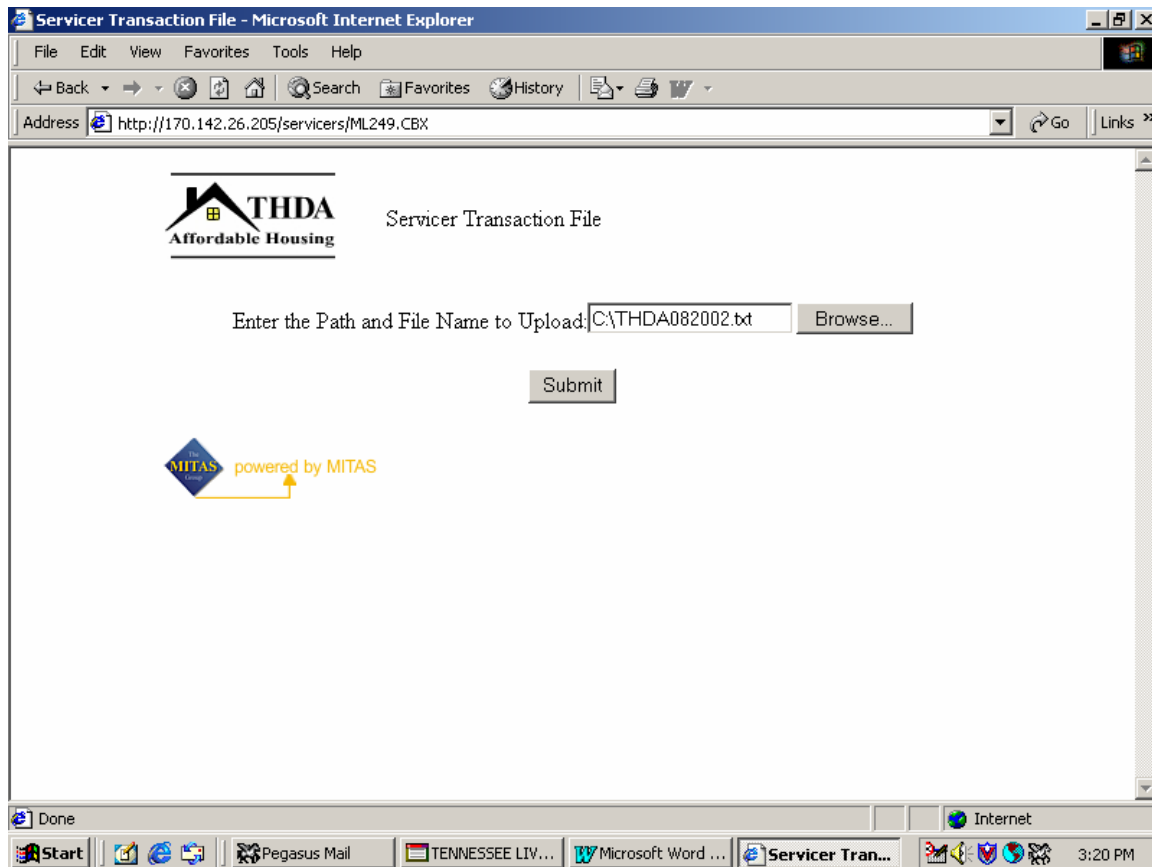
Step Two: Upload Transaction File

Click “Upload Transaction File”.



Step Three: Locate the file to send to THDA

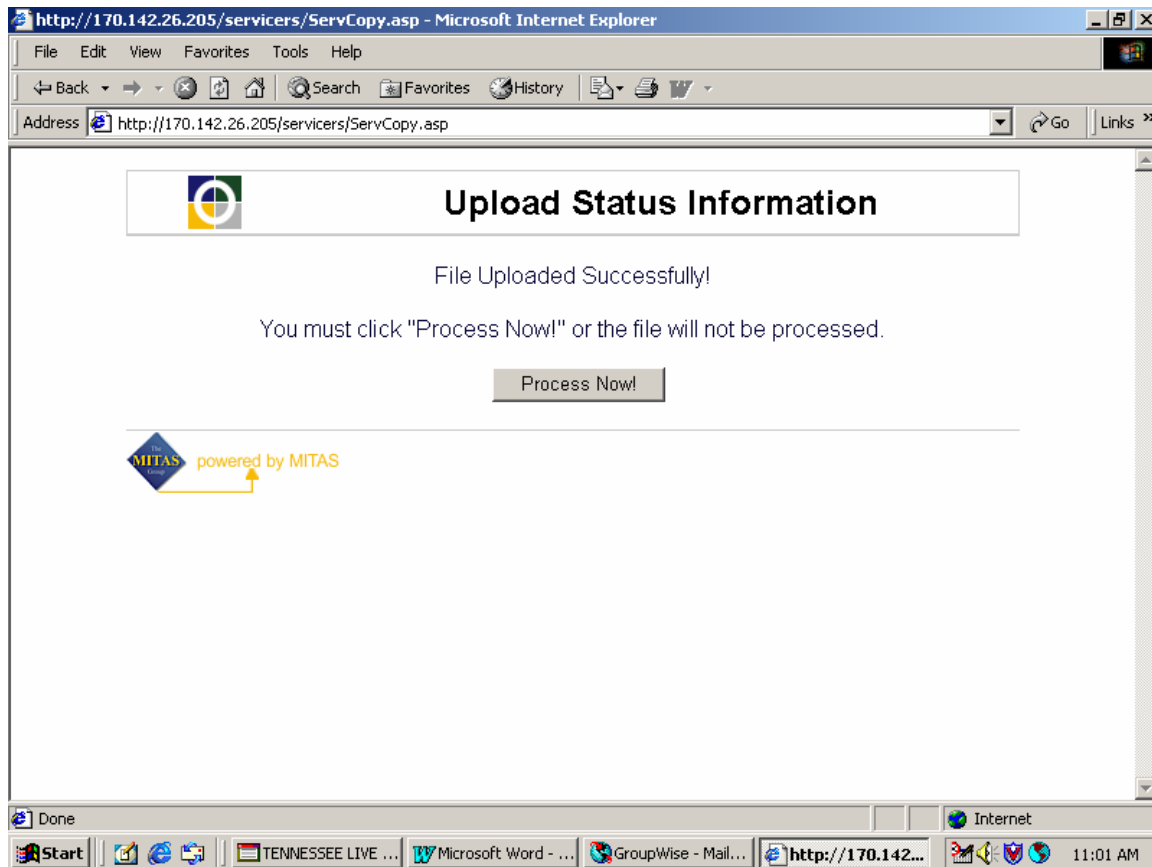
Click “Browse” to locate where your data file is located then click “Submit”.



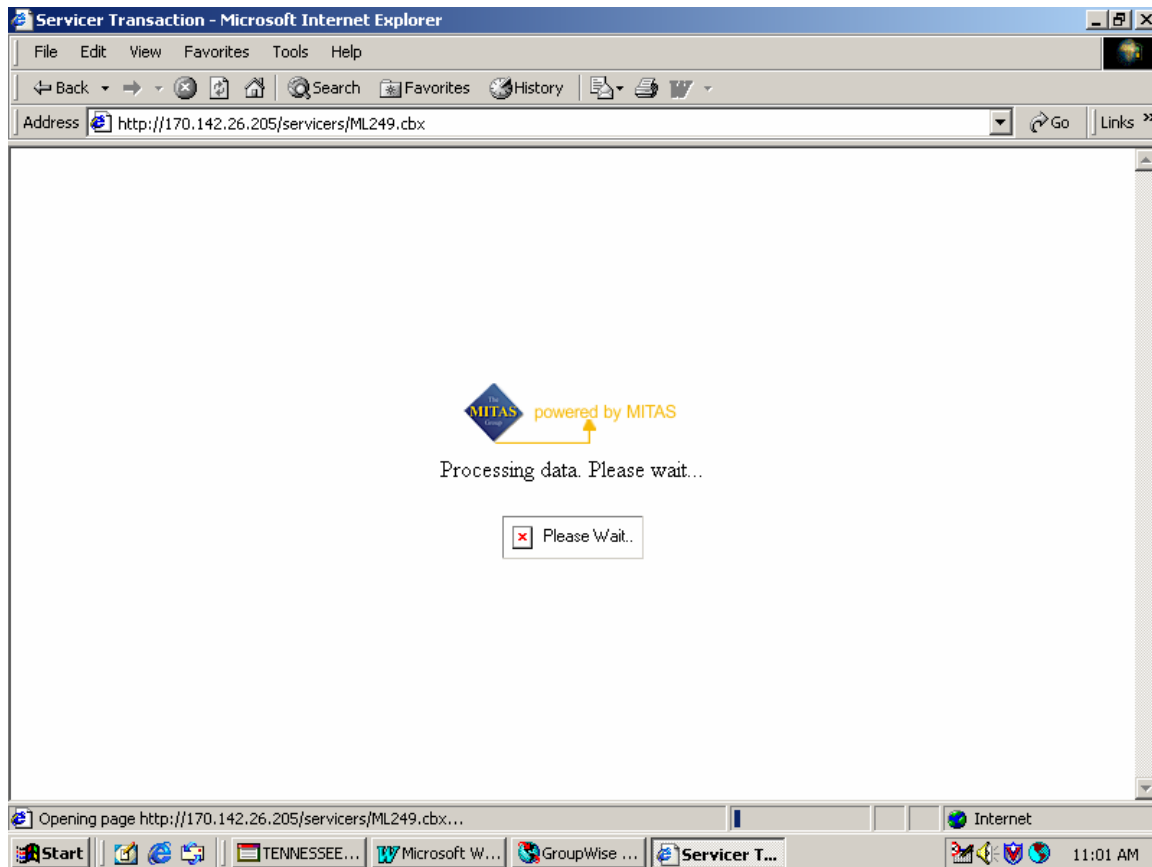
Step Four: Process the file

Click “Process Now”.

Note: Only click the “Process Now” button **one time**. If you double-click it, it will process the transactions twice!

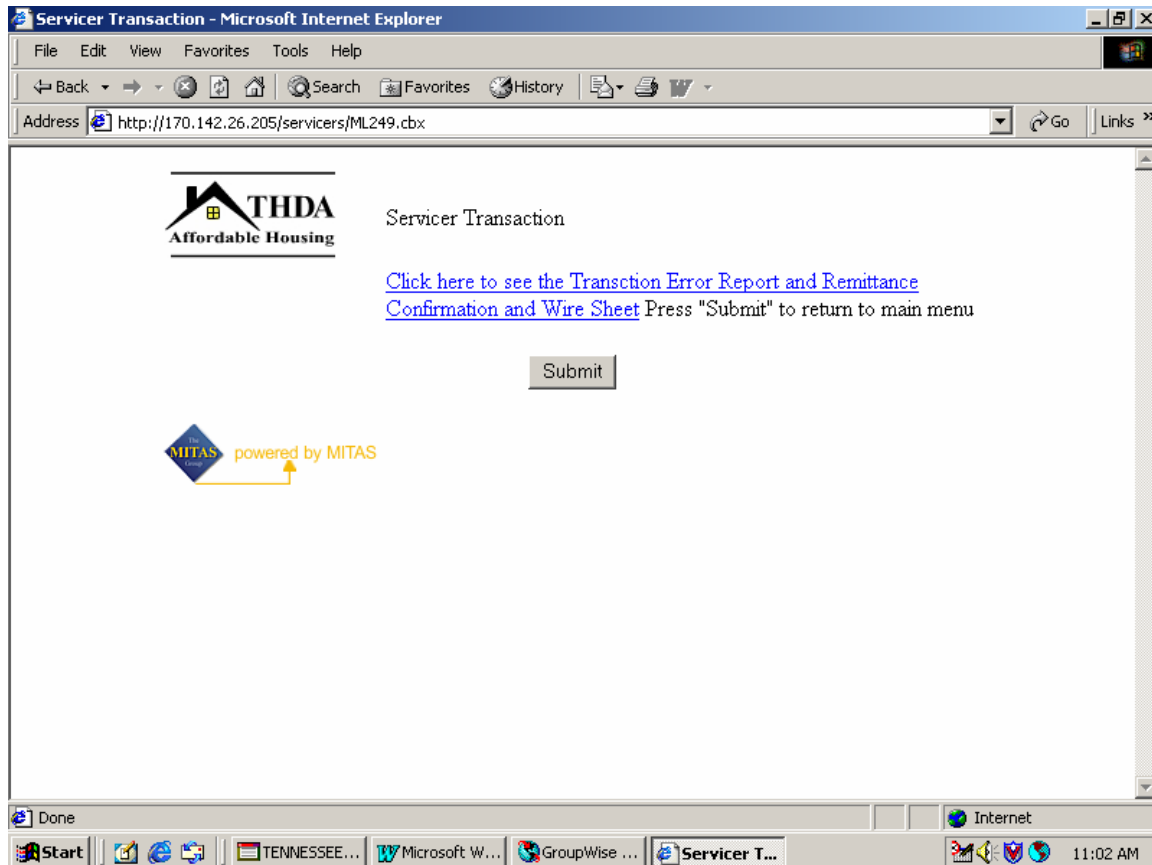


You should see the following screen as it is processing the transactions.

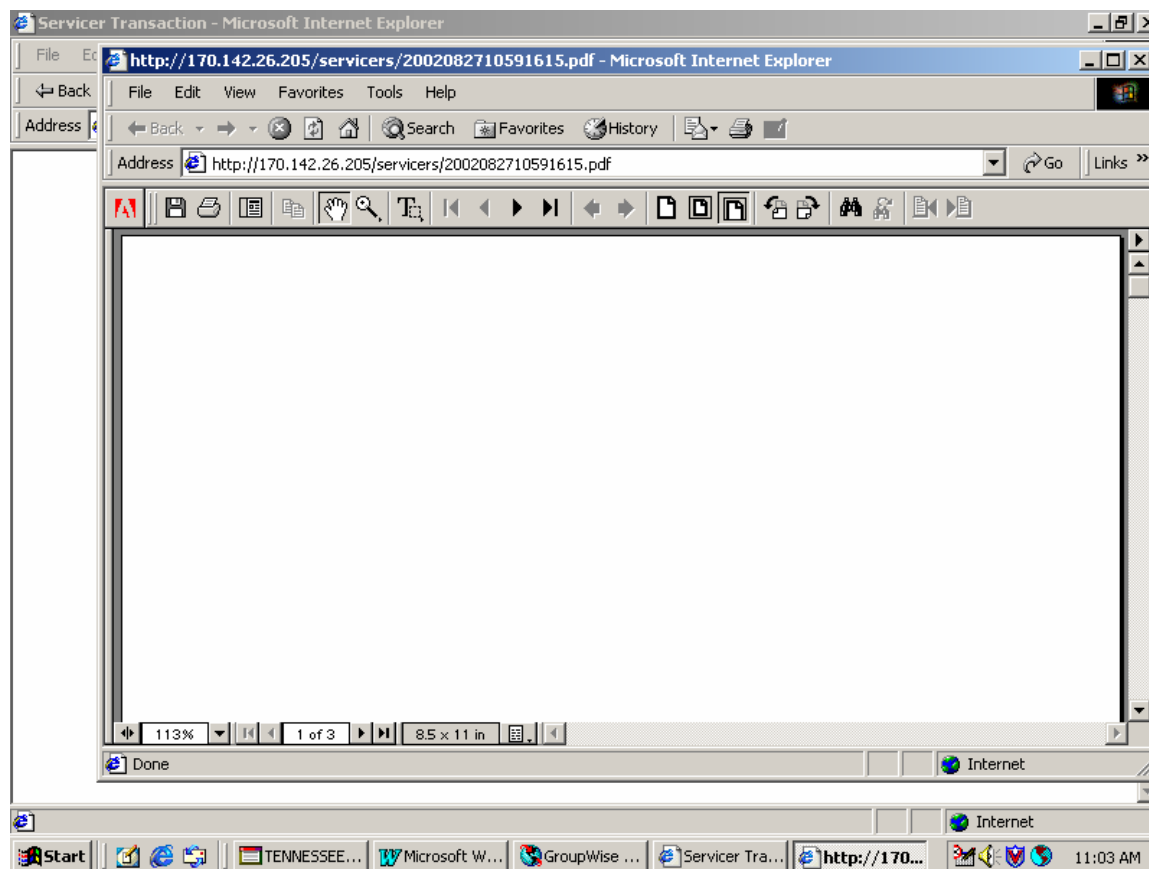


Step Five: Print reports

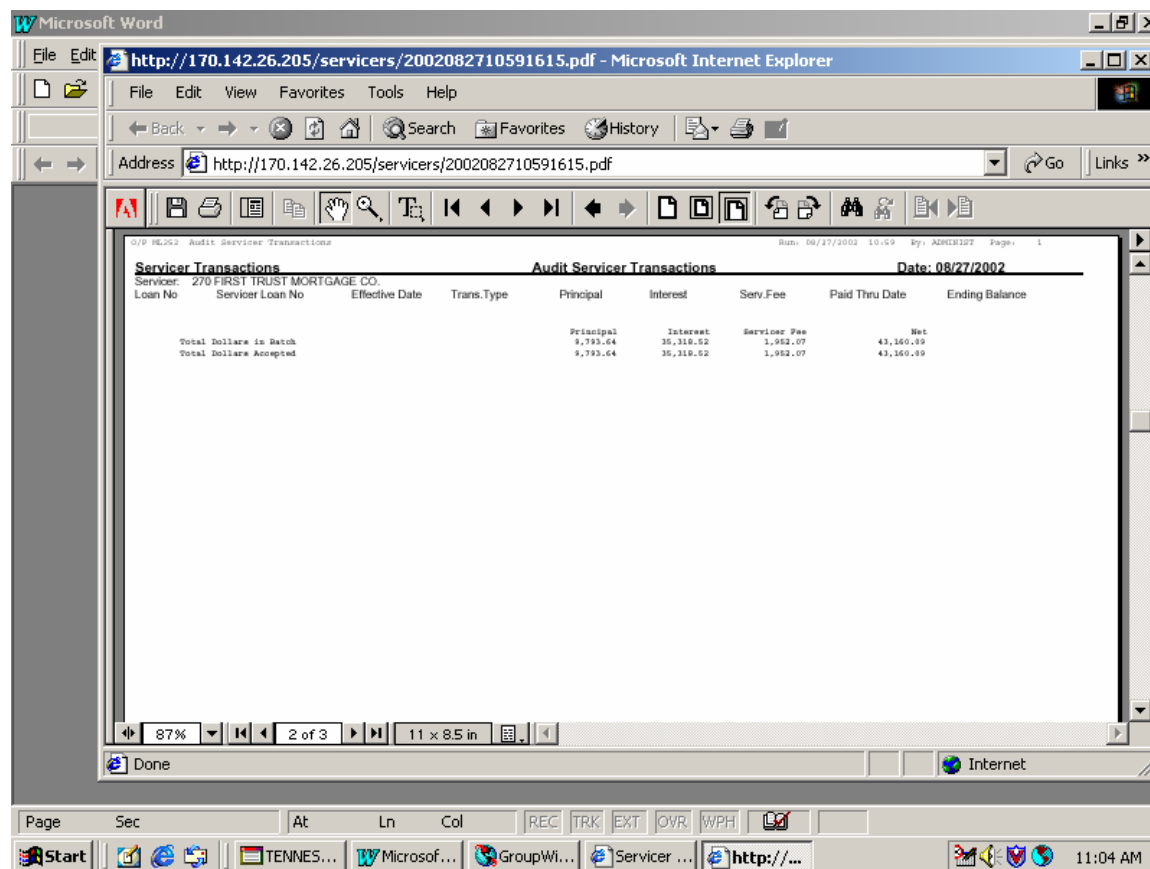
Once the file has processed, you will see the following screen. Click on the underlined title and you will receive your Transaction Error Report along with the Remittance Confirmation and Wire confirmation and Wire Sheet.



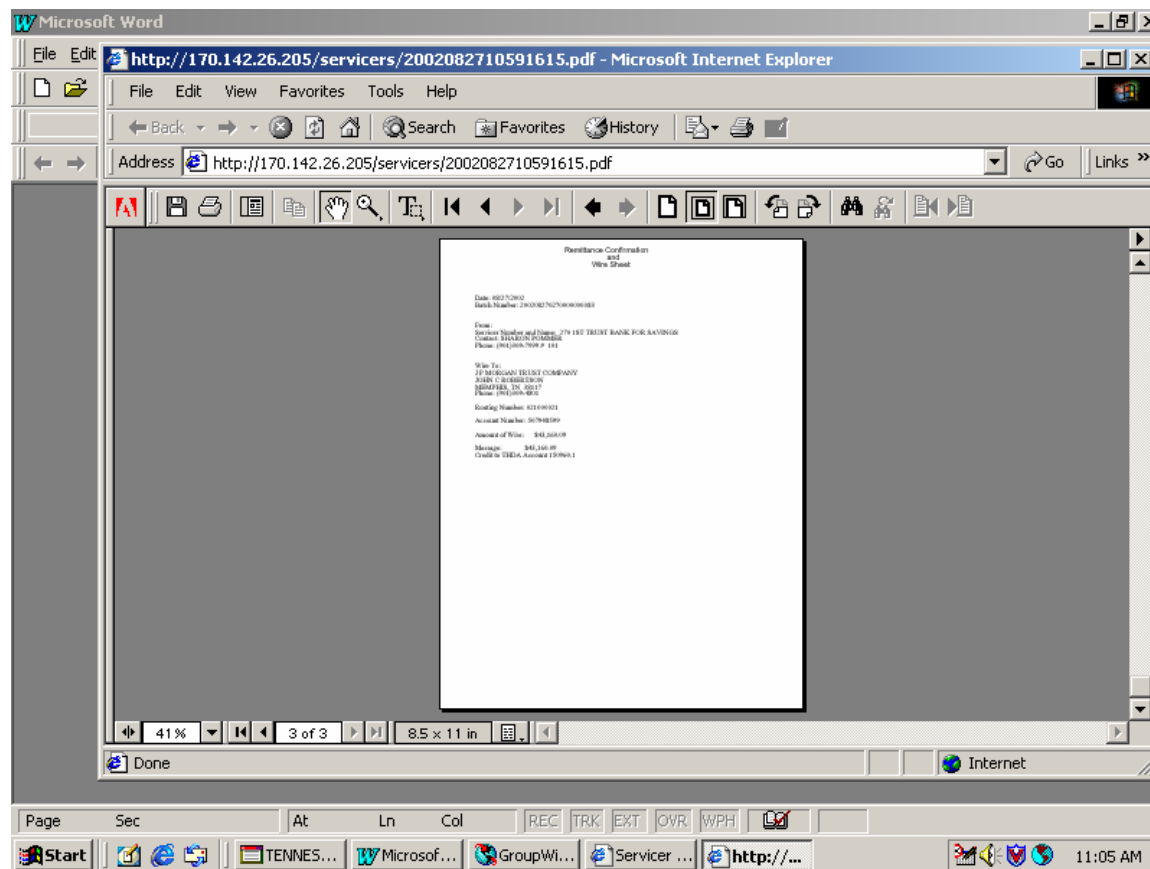
Your report will come back as an Adobe Acrobat file. The first page is always blank. You may look at the report on the screen, however, you will need to print a copy to assist in correcting any errors. Use the Wire Sheet to remit to the THDA Trustee.



Following the blank first page is the “Audit Servicer Transaction” error report. If there are any errors, they will show on this report. Correct all errors within twenty-four hours. The proper way to correct errors is to reverse the transaction, correct the error, and then reapply the transaction.



The last page will be your “Remittance Confirmation and Wire Sheet.” **You must always wire the amount indicated on this page!** This amount could be different from your system reports and actual deposits if you had a fatal error that rejected.



Appendix: A

The Mitas Group, Inc.
1500 South Central Expressway
Suite 100
McKinney, Texas 75070



(972) 547-6404
(800) 847-6404
Fax: (972) 547-6404
www.mitas.com

File Layout - Servicer Transactions

Revision Date: 3/06/2002

<u>Field</u>	<u>Picture</u>	<u>Start</u>	<u>Length</u>	<u>Description</u>
Header Record:				
Record ID	Pic 99	1	2	Value must be 01
Servicer Number	Pic 9(4)	3	4	4-digit number assigned by Agency
Date	Pic 9(8)	7	8	Format CCYYMMDD Date batch is being sent
Filler	Pic X(186)	15	186	Value spaces
Record length = 200				
Transaction Records:				
Record ID	Pic 99	1	2	Value must be 02
Loan Number	Pic X(12)	3	12	Loan Number assigned by Agency
Servicer Loan Number	Pic X(20)	15	20	Loan Number assigned by Servicer
Investor Number	Pic X(20)	35	20	Investor Number assigned by Servicer
Transaction Code	Pic 99	55	2	Valid Codes: 01 Loan Setup 02 Regular Payment (inc. Prepayments) 03 Curtailment (*) 04 Payment Reversal 05 Adjustment 09 Payoff
Principal Sign	Pic X	57	1	Format "-" or ""
Principal	Pic 9(7)v99	58	9	Assumed decimal, Zero fill
Interest Sign	Pic X	67	1	Format "-" or ""
Interest	Pic 9(7)v99	68	9	Assumed decimal, Zero fill
Servicer Fee Sign	Pic X	77	1	Format "-" or ""
Servicer Fee	Pic 9(7)v99	78	9	Assumed decimal, Zero fill
Paid To Date	Pic 9(8)	87	8	Interest Paid to Date <i>after</i> transaction has been posted <i>Format CCYYMMDD</i>
Posting Date	Pic 9(8)	95	8	Date Transaction was posted <i>Format CCYYMMDD</i>
Principal Balance Sign	Pic X	103	1	Format "-" or ""
Principal Balance	Pic 9(7)v99	104	9	Balance after transaction has been posted Assumed decimal, Zero fill
P&I Constant Sign	Pic X	113	1	Format "-" or ""
P&I Constant	Pic 9(7)v99	114	9	Monthly Payment, Assumed decimal, Zero fill
Interest Rate	Pic 99v9999	123	6	Annual Rate, Assumed decimal, Zero fill
Servicer Fee Rate	Pic v999999	129	6	Assumed decimal, Zero fill

<u>Field</u>	<u>Picture</u>	<u>Start</u>	<u>Length</u>	<u>Description</u>
Payoff Penalty Sign	Pic X	135	1	Format “-” of “ “
Payoff Penalty	Pic 9(7)v99	136	9	Assumed decimal, Zero fill
Payoff Expense Sign	Pic X	145	1	Format “-” or “ “
Payoff Expense	Pic 9(7)v99	146	9	Assumed decimal Zero fill
Filler	Pic X(47)	155		Value spaces

Record length = 200

Trailer Record:

Record ID	Pic 99	1	2	Value must be 09
Number of transactions	Pic 9(9)	3	9	
Total Principal Sign	Pic X	12	1	Format “-” or “ “
Total Principal	Pic 9(9)v99	13	11	Assumed decimal, Zero fill
Total Interest Sign	Pic X	24	1	Format “-” or “ “
Total Interest	Pic 9(9)v99	25	11	Assumed decimal, Zero fill
Total Servicer Fee Sign	Pic X	36	1	Format “-” or “ “
Total Servicer Fee	Pic 9(9)v99	37	11	Assumed decimal, Zero fill
Filler	Pic X(153)	48	153	Value spaces

Record length = 200

(*) For Curtailments, use transaction code 03 for a curtailment payment and a curtailment reversal. The “Principal Sign” field will be positive (+) for payment and negative (-) for reversal.

APPENDIX B

THDA Default and Foreclosure Forms

Automated THDA Servicing Forms: Each of the THDA forms indicated below may be automated by the Servicer, providing the information that is presented to THDA appears in a format reasonably identical to original THDA forms. In such cases, it is not necessary to reproduce boxes, lines or lists of inapplicable responses that appear on the original form provided by THDA, as long as the information appears in a reasonably identical order and position.

S-601 Residential Loan Status Report/Re-instatement (Chapter V)

S-609 Notice of Foreclosure, Deed in Lieu, or Assignment -- for reporting foreclosure or foreclosure-related activities to THDA. Foreclosure information is now being reported within 48 hours via the THDA website.

S-610 REO (Real Estate Owned) Report -- for notifying THDA of a foreclosure sale that results in THDA's ownership of a property. Report to THDA no later than 48 hours of the foreclosure sale of an uninsured conventional or a RHS loan via the THDA website. Also use to report conventional insured loans that are conveyed to THDA.

S-611 Statement of Foreclosure Expense -- for requesting reimbursement of expenses incurred by the Servicer during foreclosure or other proceedings to acquire title. Retain a copy in the servicing file.

Agreement to Assume Liability - A special form that is occasionally used in odd situations. Do not use this form except as specifically indicated in this Guide, or at the direction of THDA.

TENNESSEE HOUSING DEVELOPMENT AGENCY

- ☐ Residential Loan Status Report
☐ Report of Loan Reinstatement

Servicer's Name & Address	Servicer I.D. No.	Date
	Servicer Loan No.	THDA Loan No.
Present Mortgagor Name & Address	FHA-VA-PMI-RD/USDA Case No.	
	Due Date	Present Balance \$
	Total Payment (Including Escrow) \$	Escrow Balance \$
Servicer's Recommendation (check one only) <input type="checkbox"/> Reinstatement Date: _____ <input type="checkbox"/> Foreclosure <input type="checkbox"/> Assignment <input type="checkbox"/> Deed in Lieu <input type="checkbox"/> Repayment Plan (see comments)	<u>Loan Type</u> <div style="display: flex; justify-content: space-between;"> <div> <input type="checkbox"/> Special Forbearance <input type="checkbox"/> Military Indulgence <input type="checkbox"/> Other (see comments) </div> <div> <input type="checkbox"/> FHA <input type="checkbox"/> VA <input type="checkbox"/> Conventional <input type="checkbox"/> RD/USDA <input type="checkbox"/> Conventional Uninsured </div> </div>	Attorney Name & Address

Date of Last Property Inspection	Condition of Property <input type="checkbox"/> Good <input type="checkbox"/> Fair <input type="checkbox"/> Poor Attach Copy of Last Inspection	Property Occupied By <input type="checkbox"/> Owner <input type="checkbox"/> Tenant <input type="checkbox"/> Vacant
----------------------------------	--	--

Comments (Detailed summary of servicing background which supports Servicer recommendation.)

Servicer's Signature _____ Title _____

SPACE BELOW FOR THDA USE

☐ Comments:

☐ The Servicer is hereby authorized to liquidate this loan by the method indicated above. All legal work to effect this liquidation should be performed by the attorney designated. If the liquidation is not fully completed, the legal fee will be prorated in relation to the amount of work performed. This and any additional fees over and above the normal fee requires prior approval from this agency.

APPROVED BY TENNESSEE HOUSING DEVELOPMENT AGENCY		
Signature	Name and Title	Date

TENNESSEE HOUSING DEVELOPMENT AGENCY

Notice of Foreclosure, Deed in Lieu, or Assignment

MORTGAGOR'S NAME

SERVICER NUMBER

LOAN NUMBER

AGENCY LOAN NUMBER

LIQUIDATION METHOD

enter applicable code _____ →

- | | |
|---|---|
| a - Third party purchase at foreclosure sale of VA loan where proceeds are less than indebtedness | e - Property acquired through foreclosure, property held for sale |
| b - Third party purchase at foreclosure where proceeds are not yet available | f - Deed in lieu to FHA |
| c - Property acquired through foreclosure, pending transfer to FHA | g - Deed in lieu to VA |
| d - Property acquired through foreclosure, pending transfer to VA | h - Assignment of Loan to VA |

FIXED INSTALLMENT

\$

LOAN TYPE

EFFECTIVE LIQUIDATION DATE (Sale Date)

Month/Date/Year

Due date for last paid installment month--year

Unpaid Balance

\$

Complete FHA Case Number

Was property transferred to
FHA VA PMI on Acquisition
Date?

☐ YES If NO →
☐ NO ↓

Anticipated date for
Conveyance to FHA VA PMI

REASON FOR DELAY
Redemption Period

☐ of _____ months
☐ Other _____

IF A VA LOAN
Bid Amount at
Foreclosure

\$

TYPE OF BID IN VA CASES

- ☐ = VA Specified Amount
☐ = Total Indebtedness
(Guaranteed Debt)
☐ = Unguaranteed
Indebtedness

Servicer: _____

By: _____

Address: _____

Date: _____

Telephone: _____

TENNESSEE HOUSING DEVELOPMENT AGENCY

REO Report (Real Estate Owned)

MEMORANDUM

TO: Tennessee Housing Development Agency _____
Servicer Number

FROM: _____
Servicer Servicer Loan Number

ADDRESS: _____
THDA Loan Number

DATE: _____

RE: _____
Mortgagor Name & Address

Please provide the following information about the loan:

1. Unpaid principal balance of loan through last paid installment \$ _____
2. Less amount in escrow account _____
3. Net principal _____
4. Interest to first advertisement _____, 20____
5. Interest from first advertisement to date of sale _____, 20____
6. Attorneys and Trustees fee _____
7. Recording Appointment of Substitute Trustee _____
8. Advertising cost (approximately) _____
9. Taxes for 20____ (Paid or unpaid) _____
10. All expenses on Expense Account included above --- ☐ Yes ☐ No

**Tennessee Housing Development Agency (THDA)
Statement of Foreclosure Expenses**

Servicer Loan No:	THDA Loan No:
Servicer I.D. No:	FHA-VA-PMI-RD/USDA Case No:
Servicer Name and Address:	Mortgagor(s) Name and Property Address:

STATEMENT OF EXPENSES

EXPENSES CATEGORY	Amount
1. Attorney Fees & Costs, Bankruptcy.....	
2. Attorney Fees & Costs, Foreclosure, DIL.....	
3. Fees & Costs, Eviction.....	
4. Advertising Costs.....	
5. Title Policy (including search).....	
6. Preservation & Protection	
7. Appraisal/BPO	
8. Advance for Insurance (FHA/PMI).....	
9. Advance for Hazard Insurance.....	
10. Advance for Real Estate Taxes	
11. Recording Fee	
12. Inspections & Photos	
13. Other (Specify).....	
14. Sub Total	\$
15. Less Escrow Balance	
16. Less Hazard Insurance Refund.....	
17. Less Other (Specify)	
18. Total Due	\$

I hereby certify that the information contained herein is true to the best of my knowledge and belief and constitutes amounts included on claim for insurance or guaranty.

Authorized Signature:	Date:
-----------------------	-------

FOR THDA USE ONLY:

<p>Reductions:</p> <table style="width: 100%;"> <tr> <td style="width: 30%; text-align: right;">\$</td> <td style="width: 70%; border-bottom: 1px solid black;"></td> </tr> <tr> <td style="text-align: right;">\$</td> <td style="border-bottom: 1px solid black;"></td> </tr> <tr> <td style="text-align: right;">\$</td> <td style="border-bottom: 1px solid black;"></td> </tr> </table> <p>Net Paid: \$ </p>	\$		\$		\$		<p>Comments:</p> <div style="border-bottom: 1px solid black; height: 15px; margin-bottom: 5px;"></div> <div style="border-bottom: 1px solid black; height: 15px; margin-bottom: 5px;"></div> <div style="border-bottom: 1px solid black; height: 15px; margin-bottom: 5px;"></div> <div style="border-bottom: 1px solid black; height: 15px; margin-bottom: 5px;"></div>
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